CO-OPERATIVE BANKIN

ITS PRINCIPLES AND PRACTICE

WITH A CHAPTER ON

CO-OPERATIVE MORTGAGE-CREDIT

BY

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Author of "People's Banks: A Record of Social and Economic Success "Agricultural Banks: Their Object and their Work," etc.

"If some one had told me a few years ago what progress Co-operation was about to make, I should have said that he was talking of a vision of Utopia."—Rt. Hon. W. E. GLADSTONE.

"Le plus grand banquier du monde est celui qui dispose de l'obole du prolétaire."—JULES SIMON.

LONDON:
P. S. KING AND SON
ORCHARD HOUSE, WESTMINSTER
1907

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PREFACE.

We have been told that the time has come for a new book upon co-operative banks. And there seems reason in the suggestion. My object in writing "People's Banks: A Record of Social and Economic Success" was to awaken an interest in a movement which, though then scarcely heard of in the United Kingdom, had produced magnificent results abroad.

That object, I think, has been attained. However, evidently, though the results secured are viewed with admiration, the causes which have produced them are as yet too little understood. My object in the present book is to set forth those causes, to explain the mechanism and rationale of the institution and to give the "why, and wherefore" of each of its parts. To do this adequately it will be necessary to enter somewhat into detail, and I am afraid that it will not be altogether possible to avoid repetitions.

However, when objects and causes come to be fully understood, I think that we may look forward to as satisfactory results in this country as have been obtained elsewhere.

January, 1907.

H. W. W.

ERRATA

On p.	37,	line 28 from top,	for "makes"	. . . .	read	"make"
„ „	51,	„ 23 „	„ „ "numbers"	. . . . .	„	"number"
„ „	83,	„ 2 „	„ „ "had"	. . . .	„	"has"
„ „	107,	„ 8 „	„ „ "purpose"	. . . . .	„	"purposes"
„ „	142	footnote,	"instance"	. . . . .	„	"instances"
„ „	134,	line 2 from bottom,	for "may to"	. . .	„	"may be"
„ „	214,	„ 13 „	„ after "society" for comma		„	dash

PUBLICATIONS BY THE SAME AUTHOR UPON THE SAME AND COGNATE SUBJECTS

PEOPLE'S BANKS: A Record of Social and Economic Success. Longmans, 1893, second edition, revised and enlarged. P. S. King and Son, 1896. 10*s.* nett.

AGRICULTURAL BANKS: Their Object and Their Work. Agricultural Organisation Society, Westminster, 1894. 1*s.*

VILLAGE BANKS: How to start them—How to work them—What the Rich may do to help them. With Model Rules and Model Account-sheets added *. P. S. King and Son. 6*d.*

PEOPLE'S BANK MANUAL *. Rules and Directions. P. S. King and Son. 6*d.*

CO-OPERATIVE CREDIT BANKS. P. S. King and Son. 6*d.*

OUR VILLAGE BANK. *Westminster Review*, May, 1894.

THE POOR MAN'S COW. *National Review*, October, 1894.

CO-OPERATION IN AGRICULTURE. *Contemporary Review*, October, 1895.

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LE CRÉDIT AGRICOLE. *Journal des Économistes*, Décembre, 1896.

ESSAIS DE CRÉDIT POPULAIRE EN ANGLETERRE ET EN ECOSSE. *Cinquième Congrès des Banques Populaires de France. Actes du Congrès.* Menton, 1894.

LES BANQUES POPULAIRES AU POINT DE VUE COOPÉRATIF. *Sixième Congrès des Banques Populaires de France. Actes du Congrès.* Menton, 1895.

LE CRÉDIT AGRICOLE. *Huitième Congrès des Banques Populaires de France. Actes du Congrès.* Menton, 1896.

And numerous articles in the *Economic Review* and the Co-operative Press.

* Revised Editions of these two books are in preparation.

CHAPTER I

INTRODUCTION

CO-OPERATIVE banks have been before the world just about sixty years. In the words of M. G. François, himself a banker of standing, they have become a power in the world, a force to be reckoned with, a potent factor for good, for the democratisation of credit, for the relief of distress, for the creation of wealth, for the turning to account of industrial and agricultural opportunities. No country which has adopted them now wishes to do without them. Its leaders in economic opinion, its capitalists, its typical men of business may have expostulated against their necessity, have protested that there was no want, no room for them. The banks have come, and they have found wants waiting and uses abundant. Business has gravitated to them, thousands of needs for them have been discovered. Their merits have become known, recognised, prized. And they have proved most useful helps to social advancement and agricultural and industrial development. In Germany, where they have been longest established and have become most active in business and most powerful, they now provide millions of money to turn to productive uses, at the very points of the economic and social system—that is, at the base of the pyramid—where money help is most urgently called for, and can also effect socially and productively largest good. It is to the medium and small manufacturer and dealer, the artisan, the working man with the little needs of his household or his calling, the farmer and the small cultivator, that they bring longed for and valued help. A sovereign made available in that humble stratum,

doubles, trebles, quadruples itself in little time and brings relief proportionately to the largest number. And the same quantity of gold diffused in that wide stratum produces more happiness and prosperity in a nation than when lumped together in heavy gilding at higher points. For a happy, wellemployed and well-to-do working class necessarily means a prosperous nation. From the bottom the benefit in this application rises to the higher strata much more readily and more effectually than it is apt to filter down through the impervious lining of capitalist pockets. And so the effect becomes spread out over the entire commonwealth.

In Germany, some 950 banks alone, of one particular type—no doubt by far the best endowed and the most active—according to well checked statistics, keep perpetually in circulation, for the payment of wages, the purchase of materials, in a word, in some shape or other making for employment of the labouring classes and the direct enrichment of the nation, that very "£100,000,000," on which Mr. Chamberlain, when addressing the Working Men's Branch of the Tariff Reform League in May 1905, cast wistful eyes, declaring that with that sum to expend in additional wages he saw his way to doing great things indeed for the British working man. He thought he might obtain the money by putting additional duties upon foreign foodstuffs and other articles. Co-operative banks have required no tariff, no increased import duties, no raising of the price of corn, to provide that £100,000,000. It is produced by the people's own efforts and thrift, and, being so raised, it finds employment almost automatically, very near the source from which it first sprung, in the most fructifying way. The need has in part first suggested the supply. No raid on the consumers' pockets was required. Quite the reverse. Instead of taxing corn to produce the money, Germany, thanks to the good offices of co-operation of another kind, directly supported by co-operative banks, manages to raise the price of corn to the producer—mainly by

steadying it and rendering forced sales at times of cheapness, when they benefit only the speculating capitalist, avoidable—by *just that 2s. per quarter* which Mr. Chamberlain has suggested as the proper addition, wherever co-operative granaries or grain storage houses are established and have been well conducted.

In Austria and in Italy the result is only less in degree, but absolutely the same in kind; and hundreds of thousands of labouring and cultivating folk, small tradesmen and small dealers, steadily raise themselves from year to year in the social scale with the help of their co-operative banks, climbing up from rung to rung. Credit has now become accessible to the poor as well as to the wealthy—in some shapes to the very poorest of the people. "It is impossible," so remarked M. Luzzatti, with not unreasonable pride, in the course of one of his presidential addresses, "not to acknowledge that we have delivered the small folk and the middle classes from crushing usury, that we have assisted commerce, and, lastly, that we have helped to cultivate throughout the fruitful tree of thrift on ground which previously appeared absolutely barren." Aye, usury flees at the approach of co-operative banks, as mists do before the rising sun. Many a tale of such effect of theirs there has been to tell in the history of co-operative banking. It is the same thing everywhere, in Italy as in Germany, in Russia and Servia as in Austria. Moreover, usury only shows the effects of the want of working capital in their worst form. There is a milder form of pinch, more widely diffused, which in its aggregate effects hinders national prosperity even more. "Have you not made credit accessible to small folk to whom previously it was inaccessible, have you not popularised, democratised, decentralised credit, have you not taught people to bank, to place their money on deposit and draw it out when they need it; and do you not lend money to people who, even now, have no other bank to go to?" So I asked the manager of a People's bank in the South of France, who, having high altruistic notions,

considered mournfully that his bank was not doing enough. The answer to all these questions was distinctly in the affirmative. In fact M. G— has done an immense amount of good without being fully conscious of it. The Raiffeisen bank makes it its *particular aim* to bring help to the impoverished, the neglected, the forgotten, provided that they can show that they are honest and have productive work offering, on which to employ themselves. The Italian *banca popolare* by means of its *prestito di onore* in a different way dives down as low.

Looking a little further afield, we find the self-same results apparent, proportioned to the time during which co-operative banks have been at work, in Belgium, in Hungary, in Poland, in Servia, in Roumania. The tale is everywhere the same. A new cornucopia has been found for the poor which casts forth its fructifying golden showers, accessible to all who can show a claim to benefit by them.

And, while assisting people with credit for outlay which repays itself, the banks at the same time most effectually check improvident lending—improvidence of every kind. "The best guarantee of a co-operative bank," so urges M. Luzzatti, who originated the People's banks movement in Italy, "is the moral worth of its members." Co-operative banking could not exist where there is improvidence. The first step which a bank is bound to take, *from regard for its own safety*, is to make the improvident thrifty, the reckless careful—in some applications even the drunkard sober, the evil liver well-conducted, the unlettered capable of using the pen. In this way it has become a moralising and educating agent of the greatest value to the nations among whom it acts. The effect is everywhere acknowledged and prized. It is the same in the plains of Lombardy and Venetia, on the banks of the Rhine, in the mountains of Thuringia, and in the newly broken deserts of primitive Servia. Accordingly, statesmen favour the banks—in some instances unfortunately to excess—and priests

and clergymen have admitted that the banks are more effective in raising the moral tone among their flocks than their own ministrations, in spite of all their sacerdotal authority.

It is foreign to the purpose of this book to repeat the description of the seemingly miraculous work of co-operative credit which I have given in *People's Banks*, to tell the tale of the little villages of tumble-down cottages—peopled with families of evil reputation, so much in debt that not only their wretched starving cattle, but even their ricketty furniture, had ceased to be their own, and they were held in helpless thraldom by the merciless usurer—turned into homes of plenty, and order, good husbandry, good conduct, accumulating wealth; to relate over again the history of the early struggles and eventual brilliant triumph of the little Italian Village bank, the very humility of which, in M. Rostand's words, constitutes one of its main attractions; to describe how this system of democratised banking has spread over whole realms, brought wealth to many thousands of villages, on a larger scale reformed national banking in great business centres, how, taking advantage of every opportunity offering, it has successfully raised itself to the position of a great financial power. My present business is rather with the machinery than with the results.

I must, however, for one brief moment dwell upon the enormous services which co-operative banks have rendered to the cause of thrift as, in M. Luzzatti's words, "perfected savings banks." I shall show in a subsequent chapter to what essential extent this work forms an integral part of their programme and their plan. In any case, by presenting themselves to people in a sympathetic form, they have conquered the affection of those people and much more actively stimulated thrift than ordinary savings banks could possibly do. And they have made such thrift serviceable to the country by abstaining from locking up the money which it yields in unprofitable State securities, sending it back, instead, into productive uses, so as to restore thereby

to the local people the command of the money which themselves had first contributed, and so ensuring a double benefit.

Another point upon which I should, in passing, like to lay stress is the remarkable adaptability which co-operative banking has shown itself to possess. It has readily found for itself a place in Russia, as well as in Germany; in Italy as well as in Hungary; it suits the Canadians, and it appears to suit the Indians. It fits into the economy of every race and every climate. And, as it shapes itself in accordance with varying national character, so it also proves applicable to every variety of business or calling. It helps the artisan to buy his tools, the working man to purchase his house, or household goods, the hawker his barrow or his donkey, the small cultivator to acquire his cow or goat, the small tradesman to buy his materials cheaply, or else to tide over a bad time when he cannot sell his goods except at a loss; but it also provides working funds for large undertakings, such as co-operative dairies, the purchase of costly agricultural machinery, of motive power and the like, and it lends out millions, cheaply and more considerately than any other agency, on mortgages on land. It helps the individual and it helps the society. Although in its individual application it shields the humble, there is in its collective capacity nothing too large or too ambitious for it.

It has had a very powerful effect in cheapening money, reducing the rate of interest, and so making money much more accessible for productive purposes. It has, in fact, carried the world a good bit nearer to the ideal state in which cash is to become a mere commodity, freely purchaseable and saleable by and to any one; and freer play promises accordingly to be given to intelligence, technical proficiency and moral qualities.

It is not surprising that such remarkable results should have impressed opinion to the extent of suggesting some almost thaumaturgic agency concealed under its homely face. It all seems so wonderful! I hope to show that there is no more

wonder-working about it than sound economic causes necessarily producing good results. We are apt to forget sometimes how much we have done on other ground by appropriate action, by democratising forces and spreading them out, reduced in price, over a larger area, to make the same quantity of material yield a very much larger amount of work—no matter whether it be precious metals, or coal, or electricity, or warmth, or air. (Democratised banking, that is, banking rarified so as to become more widely diffused and to penetrate into narrower nooks and channels, may be shown to have intensified the effective power of credit in the same way.)

No more is it astonishing that the tale of all this useful work reaching our shores—sometimes in rather distorted versions—should have excited at any rate some, at the time, unfortunately still rather languid interest. In truth, it is in the outlying parts of our country rather than in the heart of the Empire that attention has been awakened. This is really perfectly natural. For wherever co-operative banking has as yet penetrated, it is specifically the poor districts rather than the wealthy that have shown themselves eager to take it up. The man who has got a little, and has become accustomed to old, humdrum ways fails to detect at once the advantages which co-operative banking offers him. His tolerable familiarity with business, which ought, as one would think, to lead him to seize upon it with readiness, and discover in it many benefits, does not help him in his stolid submission to the existing order of things. The man who has next to nothing, to whom £1 may be a boon and £5 a treasure, who sees opportunities crowding in upon him, which, if small to others, are great to him, naturally has a much quicker eye.) At the Co-operative Congress at Peterborough, when I read a paper on co-operative banking, the great leaders of the movement, princes of the Wholesale Society, and others with substantial deposits and investments laid up, pooh-poohed incredulously. Like Esau, they "had enough." It

was the poor, with their cottage plots, their little patches of potato and cabbage land, who insisted, with impressive emphasis: "We want agricultural banks." In the same way, our British small folk generally, both industrial and agricultural, have evinced little eagerness for the new banking. The poorer—and quicker—Irish only needed to be told of it to detect in it at once the remedy of all others needed; and the difficulty has, I believe, been rather to restrain them from forming "agricultural banks" recklessly, than to stimulate them to form such. The movement in Ireland is, after all, still small and humble. But it has brought substantial benefits to those who have joined in it, and the banks are loved and valued for their results. They have rendered help such as the older popular credit institutions, most notably the Loan Societies, so well known in that country, have failed to render. The beginnings of the little pioneer banks established in India under the Act of 1904, being necessarily adapted to local circumstances, are distinctly encouraging for the same reason. In India, where the terrible maháj an rules, distress is great, indebtedness is oppressive, and the need of help is pressing. Even at this early stage the pioneer banks have taught people thrift, which was not long ago looked upon as unattainable among them. Elsewhere, Canada, Jamaica and Barbadoes have experimentally taken action; and Canada already has some very good results to show.

There seems ample reason for holding that in England and Scotland co-operative banks are wanted as much as elsewhere. The most conclusive proof is perhaps to be found in the various organisations already existing, as a kind of tentative embryo banks, to render at any rate part of the same services. Such are the old Friend of Labour Loan Societies, the Funding Clubs, the Slate Clubs, the Self-help Societies, one or two very well regulated societies formed specifically for the Civil Service, and some others of the same kind. Imperfect as their methods

are, their services are in request; and there seems to be also a good deal of small lending going on in friendly societies. By the side of this, in at any rate one of our best co-operative distributive societies, the same object, of providing money for members, is attained by making shares freely withdrawable, which enables members to purchase them when they have money and sell out when they are anxious to realise. This is very elementary. But all these things indicate the consciousness of the want of some appropriate agency for obtaining temporary accommodation in money. In Edinburgh there is a properly organised co-operative society, bearing the name of "Co-operative People's Bank," which renders admirable service in providing working men with money wherewith to purchase their own dwellings, those famous Edinburgh "flats." Nevertheless the movement generally still hangs fire.

The reason, as I believe, is, that the question is not yet fully understood—even in quarters in which one would look for better discernment. It would be ungracious to go into particulars. But the evidence is not far to seek. One telling proof perhaps is the ease with which well-meaning men, whom one would suppose to be possessed of greater familiarity with business, allow themselves to be decoyed into giving support to, and pronouncing their benison upon, schemes which have nothing whatever co-operative about them except the name, which in their case is clearly used as a "drawboy" only, and which threaten to lose their supporters their money—schemes which sometimes, though bishops and deans extol them as the coming friend of the poor, the Labour Department, more conversant with such things, refuses to recognise as at all co-operative. There have been several such already. I am regularly asked to join in promoting them, with a reward placed in prospect, and some passage penned by me quoted to recommend and accredit the venture; therefore I know about these things. But even where genuine co-operative banking is earnestly desired,

it does not seem yet to be everywhere quite fully realised with what extreme caution and circumspection one ought to proceed, more particularly in the first stage; nor quite to be understood what are the moving causes and what the besetting dangers. It seems to be thought all only a matter of rules—rules, unfortunately, often enough very arbitrarily drawn—when in truth the important part is the principle; and the rules, which must needs be elastic and adaptable, so as to fit in with varying circumstances, take only second rank. Acceptance of the tale of success coming from abroad seems sometimes to be held to be enough. It appears to be thought that understanding is bound to follow in the wake of belief. Banks are labelled this, that, or the other, according as they are marked by some outward mechanical feature which is supposed to make the sole difference between one type and another. The various systems are, however, not to be either learnt or taught in this rough and ready manner. And it is idle, when the relic blood will not liquify, to find fault with the Saint and call for State aid as a *deus ex machinâ*, since it will certainly not supply better knowledge, nor better results.

It is only a good understanding of the principle, an intelligent application of the machinery, which will produce good co-operative banking. Mere mechanical rule-of-thumb management must needs wreck the bank. (In *People's Banks* I have compared co-operative banking to a piece of machinery, in which every spring, every wire, is alive, and knows and consciously performs its duty, being endowed with the capacity of rendering discriminating service, according to the merits of each case, watching and checking the other parts.) Such description I hold to be the only one at all capable of giving an idea of the work to be accomplished. It is useless, therefore, to look only to "rules" as settling the matter. My hope and desire is that what will be told in the following pages will make the machinery of co-operative banking more fully understood, and so pave the way for more satisfactory experience.

CHAPTER II

THE PROBLEM TO BE DEALT WITH

THERE can be no uncertainty about the nature of the problem which a co-operative bank is called upon to grapple with. The man who joins a co-operative bank joins it because he requires a loan which he is not able to obtain in other quarters except on terms which are either exceedingly onerous or else humiliating, and in consequence demoralising. All other legitimate sources of credit seem closed against him. "What we are bothered about," so said a hapless working man to the vicar who formed the first Self-help society, in answer to his question, "is this: whenever we want a shilling we don't know where to get it."

It is a truism, and almost a stale one, to say that credit has become in economics a very ruler of the world, the main driving-wheel of industry, commerce and finance, the support of public bodies and states. As a factor of production it deserves all the good things that the late H. D. MacLeod has said about it in his *Theory and Practice of Banking*, except that it actually *is* capital—although in not a few cases it may be found to supply a substitute even more useful than its counterpart. No Chancellor of the Exchequer, no merchant, no petty tradesman could do without it. Were Lord Byron to write his *Don Juan* today, he would probably substitute "Credit" for "Cash," and say: "*Credit* rules the grove, and fells it, too, besides"—repaying itself with profit taken out of the proceeds. And Lemuel's "virtuous woman, considering a field," would presumably now buy it with *credit*. It is absolutely inconceivable

how the world could in the present time go on, even for a day, without credit. In business or enterprise of any kind, the main use of money may almost be said to have become that of purchasing credit—credit far exceeding in amount the value of the money which buys it. Credit multiplies the utility of money and often enough constitutes the only means by which economic help can be rendered. Let me put a hypothetical example. A person receiving a sum of money as a gift might be counted upon to waste at any rate part of that sum, and, confident in his possession of wealth, to show himself reckless in his business calculations. The same man receiving the same sum distinctly as a loan, realising that it must certainly be repaid, is not likely to make ducks and drakes of a single shilling; he may be relied upon to husband his cash and not to spend a penny needlessly. It is the new form given to his money which has awakened his sense of responsibility, as possession never could have done. There, surely, is no denying either the utility, or even the absolute necessity, of credit as an institution.

But unfortunately such utility becomes in practice narrowly circumscribed. One man has it, the other has not, even though he should want it more urgently, and be, perhaps, more deserving of it. For, at any rate wherever co-operative banks have as yet failed to establish themselves, credit remains altogether the monopoly of the wealthy. Truly, "to him that hath shall be given!" The poor man, as has very correctly been observed, in truth needs credit a great deal more, just because he *is* poor. He has that which money can make richly productive and remunerative, that is, his muscular power and his mental capacities; but he lacks the wealth, or its substitute, which alone can make them creative of wealth. "He has no credit because he is poor, and he remains poor because he has no credit; in such vicious circle does he move helplessly along." The thing seems cryingly unjust. But it is in truth perfectly reasonable. Our banking, as we have it, is essentially

rich men's banking, and was advisedly established to be such. It is quite true that bankers, made liberal by competition, to-day readily accept as customers comparatively small men with small balances and doing small business. But still, in the main, banking remains the wealthy man's special preserve. The explanation is simple. Credit presupposes security. It would not be legitimate without such. And there is—without co-operative banks—no security that the poor can give, which could at all satisfy bankers. I am now using the word "poor" in its most comprehensive sense, as including in fact every one who does not satisfy this test, of being able to raise money easily on credit at moderate interest, be he a rather under-capitalised tradesman or manufacturer, or the needy costermonger who, for want of a sovereign or two wherewith to stock his barrow, when he might double or treble the outlay in a day, is constrained to allow the opportunity to slip by. To these people—millions in every nation—the ordinary bank is barred as a credit institution, and in their hour of need or opportunity they have no one to fall back upon except the charitable philanthropist, from whom it may require a good deal of time, coaxing and loss of self-respect to obtain a loan; or else the usurer, whose credit is anything but cheap; or else the pawnbroker, or the tradesman—which latter may possibly accommodate the applicant with ruinous and demoralising shop-credit, in return for which he will claim back even more in dependence than he takes in unowned interest. The bank and our man cannot possibly be brought together to do business—not merely because there is no security forthcoming that the bank could accept, but also because the two dwell, so to speak, in distinct worlds, far apart. The banker does not understand his would-be customer, nor could he appreciate his resources and his necessity; and the would-be customer certainly does not understand the banker—if he is a working-man, an artisan, or a small farmer, or small holder,

he could not possibly do so; the two people almost speak different languages. And certainly the small man, being dependent upon his earnings for his daily bread, could not spare the time for trudging a long distance within working hours, to explain his case to the fine gentleman in his regulation frock coat behind the counter. If capital—of which there is plenty—and need in this particular shape—of which there is sufficient to match—are to be brought together, some new bridge will have to be thrown across the gaping gulf which divides them.

It reply to this, it is often enough asserted that "the poor" —probably intended in a less comprehensive sense than that in which I have here used the term; but let us accept it, it will prove my case *a fortiori*—has no legitimate *use* for credit. That is a hard saying, and, I think, patently refuted by facts. The petty tradesman or small farmer, who, with a money claim urgent against him and goods in stock momentarily depreciated in the market, is in despair lest in a forced sale of such goods he should lose heavily, certainly has a use for credit. So has the artisan, who stands in need of tools or materials, which will repay his loan many times over in little time; the poor woman, who, if she could but purchase a sewing machine, could well earn her living and keep herself and her children from starving; the costermonger—I repeat the case, because in this country it is of very frequent occurrence—who sees his opportunity of trebling or quadrupling a small outlay, if he can only obtain the small sum needed at the right moment, lost. And how if we go out into the country? What is the small holder do with his bare land?

People will have it that agriculture does not "pay." It does not, very likely, on the old lines. But no calling pays better in small hands when there is plenty of money to work it with. Only, in all our callings—agriculture has been the last to learn the lesson—the rule of the present day is: you must have plenty of *working capital.* It is not the food which just sup-

ports the life of a beast which earns a profit, but the extra hundredweight of cake or meal which lays on the flesh and fat. It is not the mere delving or ploughing of the soil that makes farming remunerative, but the manure put into it. And of such fertilising material the last bag or hundredweight earns a profit out of all proportion to that earned by preceding ones. It is "intensive" which does it. The old Roman saying: *annus producit, non ager*, might very appropriately be altered so as to make it say: it is not the land that pays, but the money which you put into it. Of course judicious employment must be taken for granted. But all knowledge and skill, all foresight and calculation will be thrown away if we have not got the money. Hence in business those enormous accumulations of working capital by amalgamation of banks, or creation of monster stores, which are a characteristic of the present day. They are in themselves conceived on perfectly right lines. There is no harm in the centralisation of business. That cheapens production. But there is distinctly mischief in the employment of it as a capitalist weapon, producing wealth in one quarter at the cost of impoverishment in another. In the wake of amalgamation unfortunately follow "rings," "corners," "trusts." It is not true, of course, as is sometimes asserted, that in the present day the rich still become richer and the poor poorer. But the striking inequality in the command of credit, to which attention has been called, which gives all to the rich and nothing to the poor—as in the French "partage de Montgomery"—necessarily and greatly retards the progress of the desired levelling movement and obstructs it.

Now the same need of capital, *much* working capital, for purposes of production, trade, commerce, applies to small undertakings as well as to large. Such small enterprises have opportunities as well as the others, but cannot at present turn them to account. And small enterprises it is which we have to reckon with more particularly in agriculture. For

apart, foreign experience, wherever there are co-operative banks, conclusively disproves it. It is not quite correct, as was stated at one of our Co-operative Congresses a long while ago, to say, that the presence of co-operative banks made German married soldiers economically independent of the cessation of employment connected with the war of 1870, because "there was the bank to provide for their families." Co-operative banks have indeed rendered very useful service under circumstances of such sort, just as they have rendered truly invaluable help during the great drought of 1893. However, they cannot burden themselves with out-of-work pay. Where there is security forthcoming they can help to tide over a slack time. But there is in Germany and in Italy many a small workshop kept going, many a man helped up to a higher social level, many a small factory enabled to continue employing its hands in adverse periods, simply thanks to the assistance rendered by co-operative banks.

However, advancing one stage further, we are confronted with a fresh objection. Granted that poor people have a *use* for credit, so it is urged, they still have no *title* to it; that is "food for their masters;" it would be sure to be injurious to them, on the principle of *ne puero gladium;* they have not the requisite commercial education; they would not know how to employ credit; it would burn a hole in their pockets and become in their hands like an edged tool in the hands of an untrained boy, that is, it would in all probability injure instead of benefiting them.

Surely such supposed consequences might be left to take care of themselves. It is rather late in the day, after working men have triumphantly carried through their co-operative enterprises on a most imposing scale, and formed and managed their various societies—friendly, trade union and others—with admirable success, to raise this objection. Those men might now be trusted to deal on their own responsibility with a little borrowed money. Nobody objects to safeguards. I shall have

plenty to tell about them; they are absolutely necessary. But those who make themselves responsible for the credit might be trusted to impose such, for their own protection. No more can one object to instruction in the art of using credit; that is one of the main objects for which co-operative banks were formed. But the right of poor people to claim credit, if they can pay its price, is absolutely not to be denied in the twentieth century.

Everybody has a right to buy what he can pay for. But that brings us to the very crux of the question. Credit, so it is argued, must be paid for, like everything else. And its one price is security. Now, as observed, the security that bankers ask for, and from their point of view rightly ask for, our poor people—employing the word once more in a wider sense—are not in a position to offer. Our very assumption is, that they have no material possessions, at any rate that they could spare. And material possessions, a tangible, convertible pledge, or the knowledge of the existence of its equivalent—for that is what lending on "character" in most cases amounts to—is what alone will fit into the banker's system. Our poor people have "security" all the same. "The skilled artisans of a community," so wrote the late Sir Robert Morier, addressing himself with great judgment to our very present problem, "are as good a subject for a mortgage as the steam-mill which supplies it with flour, or the broad acres which furnish the corn for the mill." Sir R. Morier had seen co-operative credit at work in Germany. I do not go the full length of his assertion. But I would point out that in one sense, limited it may be, working men have often proportionately more substantial security to offer than capitalists, if it can only be made effective. For, in their smaller venture, they put more *value of their own* into the enterprise for which the credit is asked, and by which it is in a sense secured. Their own labour, their technical skill, their future existence or welfare enter into the undertaking and are p/with

stake in a comparatively larger proportion. Of tangible, convertible security, however, it is true, they have little.

It is therefore perfectly correct, as a noble Duke put it to me, when a fair number of years ago I requested him to accept the presidency of a propagandist popular credit organisation, "if you were to sell all these people up, what would you have?" However, tangible property is not the only security which can claim credit value, nor perhaps even the best. "Credit was in its infancy", so urged Léon Say, "when kings borrowed on their crowns and their jewels." A man may be effectively bound by other pledges. In Germany, among the higher classes, a man becomes ruined in social position if he fails to redeem a debt secured by an *Ehrenschein,* a promissory note for which he pledges his word of honour. Respect for him is gone, his classmates will not look at him; if he is in the army or the public service, he forfeits all prospect of promotion, and may have to retire. He is held to have dishonoured himself. The poverty-stricken Italian peasant who, despairing of making a living at home, is provided with a cheap passage to Argentina, shows that he is governed by the same sense of honour—produced, it is true in humbler circumstances—when from his far-off, new home he sends back to his little *cassa r..ale* the few lire that he still owes, rather than disgrace himself wi.y his classmates, even though he is at a distance from them.

There is, as I hope to show, as a matter of fact, plenty security to pledge. Only it is not of a description such as st ordinary business bank could take, or be expected to take. Therefore a new agency must be created to make it effective.

And it is not the character of the security only which comes into consideration. (The question of distance has a distinct bearing in the matter.) The small holder could not go a pilgrimage into the distant town, sacrificing a day's work, in order to borrow a pound or two. He must have his bank almost at his own door—"just round the corner."

Also the character of the people dealing with one another comes into account. The small man wants people to go to, to whom he can express himself with freedom, who can understand his language and fully appreciate his case. There have been not a few attempts made to attract the small man, more particularly the peasant, and to induce him to ask for credit, coming from substantial financial institutions, doing business through specially appointed local agents. From Napoleon the Third's pretentious *Crédit Agricole*, which in the end benefited only the wasteful Khedive Ismail—by invitation—down to the Belgian *comptoirs agricoles*—of which a few still linger on, long after the congenerous French institutions of *comptoirs d'escompte* have vanished from the scene after enforced inaction—such institutions have utterly failed to bring the desired relief. There was plenty of money placed at borrowers' disposal; and with every disposition to lend it to them—those institutions were specially created for the purpose. However, for want of an appropriate form selected to connect supply with demand the attempt failed.

The case of the Belgian *comptoirs agricoles* will make the case very plain—almost as plain as that of the French *comptoirs d'escompte*, which, formed with the object of providing convenient credit for small agriculture, never did any business at all. The Belgian *comptoirs agricoles* were introduced in 1884. They placed the practically inexhaustible resources of the National Savings Bank at the disposal of agriculture, through the means of local committees to be appointed in each district in which they might be asked for, composed of members who might be presumed to be possessed of a knowledge of local circumstances. To stimulate their zeal, they were to receive a commission on business done. On the other hand, they were, as a precaution to induce them to take none but good security, to make themselves liable for the money lent out on their recommendation. I do not think there were ever more than a score of *comptoirs* actually formed. Their business was trifling, and mainly with

owners of large estates, who were in a position to satisfy the *comptoirs* in respect of security, but who had already other sources of credit open to them. By 1889 their number had dwindled to four, of which only one, that of Genappes, showed any signs of life. In 1903, which is the last year for which there are returns at the time of writing, there were once more eight, but their business was insignificant:—1,738 loans in all, amounting to 7,873,047 francs, something like £314,920; and, of that number, 759 loans, standing for 4,214,662 francs, stood booked to one *comptoir* alone. £200 a loan is not altogether *small* business. Similar attempts, made elsewhere, proved, if anything, even less successful.

Generally speaking, the small man is anything but a ready borrower. He would rather keep the tale of his distress to himself. He cannot readily be brought to regard credit for some productive employment as a legitimate transaction. He still believes that there will be held to be something of disgrace attaching to it. Invite him to make his application for credit to some correctly clad gentlemen in a fashionable bank, and he would sooner go without the promised benefit. He must have his own bank, as he must have his own shop, homely and plain, it may be, but of familiar appearance, familiar to him i its usages, encouraging him to do business.

We may, I think, take this first point for granted. Som special and distinct banking institution there will have to b not merely as a means of ensuring that the particular ki of business here contemplated will always be forthcoming, b also because without it the conditions of the problem could n possibly be satisfied. There must be a distinct credit-shop go to, dealing with small customers according to their own hab and requirements. And there must be a distinct credit-sh on this other ground that—as, I think, has been shown—ordina banks cannot meet such particular type of demand. With narrow limits ordinary banks may indeed deal with small bo

rowers—as, in point of fact, some of them endeavour to do in various parts of the kingdom, more specifically in Scotland and in Northern Ireland. But their business must necessarily be restricted, and leave many gaps; it cannot satisfy the entire class of people here to be considered; and, well intended as it may be, it is bound to labour under the drawback of being based either upon very liberal—from a business point of view doubtful—confidence; or else on real security. It makes no difference in principle under this head whether the actual borrower is a small man, without any real security to pledge, so long as his endorser, accepted as such by the bank, is expected to be a man of substance. The security pledged will under such conditions still be real security. Indeed, this kind of business, the going bail of a rich man for a poor on such lines, is open to very serious abuse, such as may unfortunately be witnessed, among other places, in Italy, where it is not unusual for a small peasant or artisan in need of funds, and not dealing directly with a co-operative bank, to ask a usurer, not for a loan, but for his endorsement, for which he pays high interest. Our aim must be to provide an institution which is in a position to deal, and deal at any time, with the small man on his *own* terms, accepting security such as he has it in his power to give, without drawing on the protection of the rich. And that implies and includes what must accordingly become the main factor in our problem, the providing of some *new kind of security*, which small men can give, collectively if not singly, the devising of some new pledge for credit such as will serve where there is no tangible security to offer.

And there is one more consideration to take into account, of no less vital importance. The new agency to be provided, as I would insist, is not a convenient and plausible channel through which to pour charity or bribes—which could not fail to have a demoralising effect; or a specious institution for subsidising small men out of public funds—which would act as detrimentally. The object of the assistance given must ever be

to benefit the recipients *educationally* as well as materially, to *emancipate* rather than further to enslave them. And so we see a high social and moral aim rising up into view, behind the purely economic one of material help, but inseparable from it. In truth, material help in such connection, without moral improvement and a strengthening of fibre, would be only mischief in disguise.

But our immediate problem, upon which everything else hinges, and which must above all things be dealt with, is that of *devising a new kind of security*, within the reach of everyone as a borrower, but at the same time satisfying to the lender.

The general principles involved in the solution of such problem I purpose to deal with in the succeeding chapter, and afterwards to explain in detail how, in the several systems of co-operative banking in use, those principles are applied.

CHAPTER III

HOW THE PROBLEM IS SOLVED

THE only method by which weak men can remedy their individual weakness, such as in the present case we have to postulate, is combination, the joining together of puny efforts, so as by their collective effect to produce force. Obedient to this maxim, working men combine to make their money go further in purchasing, their labour in producing. There are many more provinces of human activity into which Co-operation might with advantage be introduced in the same way, such as the renting of land, the erection of houses, the use of machinery; and, please God, it some day will.

The same principle is applicable also to credit. However small may be the individual's power to give security, many sma[ll] units combined may very well make up a sufficiency for mode[rate] purposes. And once this result is brought about, additiona[l] forces may, as we shall see, be brought into pl[ay] ... effect of still further stiffening the power produces, making the collective security go, in the end, a very ... Practically ... as an illustration of this, the famil[iar] ... half of our ... oing may suggest itself. However, that ... ound its way into ... ours with our case, because in ordinar[y] ... overdraft does not ... ndeed there are two or more securities ... opular way in which ... ond, and accordingly to that extent ... pon its introduction— ... peration, the substance is wanting. ... appear to be spreading. ..., as a rule, not the security of a... d's words: "Cash credits ... f the one surety who happens to ... verdrafts ... only they are ... and, furthermore, all such security ... system, and are governed ... and are appropriated to cer-

of any co-operative principle underlying it, but on the g
of the accessible seizable property which it represents.

There is something far more nearly approaching co-opera principle to be discovered in a peculiar continental organisatio the *Unions de Crédit*, which were originally established in Belgiu but have long since spread out into Switzerland and France, an notwithstanding what would appear a very risky feature in the organisation, have become exceedingly popular and worked ver satisfactorily, and practically without any loss. The very firs such *Union*, formed in the revolutionary year 1848, has live down to our own days and done well. In these *Unions* a indefinite number of members join together, taking up each, say one share of 200 francs. On that share they pay up only 20 francs, in some cases even only 10 francs; but the shar entitles each holder to 2,000 francs credit, to be made effectiv by means of a bill of exchange for which the entire *Union* make itself liable. No doubt, in case of default, that is, if the *Union* were really to be made to pay, it would have its legal remedy against the issuer of the bill; the *Union* has also the resourc open to it of calling up, in case of need, the balance on the shares. However, of all this outsiders know nothing. They buy *Union* paper and look to the *Union* for its redemption. In no ... *Unions*, more particularly in those of Switzerland, member ... to take up more shares than one each, in som ... which would under the above assumption mea ... ly 2,000) francs paid down, and credit give ... ncs in return. The structure presents its ... as top-heavy and precarious in the extreme ... really workable only on the suppositio ... to have been realised, that the *Union* ... extreme caution, so as to keep o ... not, of course, societies of workin ... n who have need of ample credi ... rth their while to purchase such

most scrupulous observance of their obligations. The popularity and respect enjoyed by these *Unions* demonstrate that very much good conduct of business alone, and a reputation for honesty acquired, will do to secure credit. For it is really the established honesty of its members which in this case requires such. The money actually staked seems out of all proportion to the risk. However, a vivid sense of responsibility possessed substantially strengthens its effect.

Successful as this method has proved, it would obviously not answer in the case of presumably poor men, not in very active commercial business, with which we are supposing ourselves to be confronted.

There is another practice, very familiar in the northern half of this island, which brings us a good deal nearer to our point. In 1729, the Royal Bank of Scotland, erected by charter only two years previously, with the object of influencing opinion in favour of the Hanoverian Government and circulating its own unlimited issue of bank notes in the northern kingdom, introduced what has become widely known as the system of "cash credit." Up to that time, credit had been currently obtainable only by pledging some security. Cash credit is a credit opened to a customer of the bank, to draw upon at pleasure up to a figure agreed upon, which is guaranteed by sureties, making themselves answerable, and accepted by the bank. Practically the same thing has become familiar in the southern half of our island by the name of "overdraft." Only it found its way into England very much later, and even now the overdraft does not appear to be used in anything like the popular way in which it became established in Scotland at once upon its introduction—though, even in Scotland, it does not now appear to be spreading. To quote the late Mr. H. D. Macleod's words: "Cash credits do not differ in their nature from overdrafts . . . only they are reduced to a much more regular system, and are governed by their own methodical rules, and are appropriated to cer-

tain particular purposes in the banking system." Cash was introduced to assist the tradesman, the farmer, the [illegible] facturer, by placing credit at his disposal, to be paid for as used, in current account. Mr. H. D. Macleod sing[illegible] praises of its remarkable results with no subdued voice. [illegible] far-famed agriculture of the Lothians, the manufactures of Gl[illegible] and Paisley, the unrivalled steamships of the Clyde are its proper children." The grateful appreciation with which credit is viewed by Scotchmen is further illustrated by the f[illegible] ing passage which I quote from the (London) *Bankers' Mag*[illegible] "A friend of mine," so related Mr. Fowler some years [illegible] the Bankers' Institute, "was travelling in one of the [illegible] counties in Scotland, and there was pointed out to him a [illegible] covered with beautiful farms. My friend was an English[illegible] and his companion, who was a Scotchman, pointed down[illegible] valley, and said 'That has all been done by the banks,' [illegible] mating his strong opinion that but for the banking system [illegible] Scotland (the cash credit) the development of agriculture wou[illegible] be in its infancy compared with what it is now."

In the same spirit, when some ten or twelve years ago[illegible] addressed a gathering of members of Parliament at Westminst[illegible] on the subject of co-operative banks, a Glasgow merchant, [illegible] that time Chairman of the Chamber of Commerce of his ci[illegible] and member for a northern borough, patting me approving[illegible] on the back, said: "You have hit the right nail on the hea[illegible] I owe what I am to cash credit; what has been done for [illegible] we must now do for others."

In truth there can be no doubt about the merits of [illegible] system. Our rivals in commerce, the Germans and the Am[illegible] cans, have borrowed it from us, improved upon it, and ma[illegible] it answer marvellously.* In the words of a recent writer [illegible] the (London) *Bankers' Magazine*, German credit-banking, ve[illegible]

* See my article on "An Unconsidered Factor in the Industrial Proble[illegible] British and Foreign Banking," in the *Economic Review* of October, 1905.

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troduces a new feature which helps us considerably, guiding
on our way in our quest for something more popular, more
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cts upon the people of Scotland, and particularly upon
middle and poorer classes of society, in producing and

encouraging habits of frugality and industry." Cash referred to is that of cash credits.... From the:r, the these cash credits give to all the small tranpaid for country, and from the opportunities which they a:od sing who begin business with little or no capital but voice. to employ profitably the minutest products of tlres of Gl cannot be doubted that the most important de are its derived to the whole community." "The witneh which ence we have quoted," so the Report goes c by the f they calculated that the number of persons rs' Mag credits granted to them amounted to about 1c years and, as the average number of securities to ef the r be taken at 3, there were about 30,000 perso him a T securities; so that the total number of person English (1825) who were interested in the system wanted down The banks were then supposed to be under banks,' that sort to the amount of about £6,000,000, of wistem two-thirds were drawn out.... This system has a g upon the moral habits of the people, because those securities feel an interest in watching over their conduct if they find that they are misconducting themselves, they come apprehensive of being brought into risk and loss f having become their sureties; and if they find that they so misconducting themselves, they withdraw the securi "The practical effect of which is," says one witness "that the sureties do in a greater or less degree k attentive eye upon the future transactions and character person for whom they have thus pledged themselves; a is perhaps difficult for those who are not intimately acquai with it to conceive the moral check which is afforded upon conduct of the members of a great trading community, are thus directly interested in the integrity, prudence, and cess of each other. It rarely indeed, if ever, happens that b suffer loss by small cash accounts."

That is almost of a piece with what a member of the first rural co-operative credit society of Italy, in Loreggia, stated in much plainer words in his broad Venetian patois, many decades later, when asked to explain the success of co-operative banking, applied on a minute scale in his own village. "We are a hundred persons, who watch one another like spies; it is not possible that any one of us should fail in his duty."

Here we have the principle of the new form of credit and the cause of its safety and success set forth in few words: it is knowledge of the borrower, power over him, and intelligent watching of him on the part of his surety, made effective by a keen sense of responsibility brought home by means of direct liability for his conduct; in other words, the creation of an intermediate body, bound by interest to the borrower, but bound also very effectively by interest to the lender, negotiating with the latter and controlling the former. Under this system it becomes the surety's business to satisfy himself that the borrower for whom he goes bail is a proper person to be trusted, and that he remains so. The bank is not in any way concerned by what means he accomplishes this. He covers the bank with his shield, securing it against loss.

However, this is, after all, still only a very one-sided transaction; the surety receives, at any rate ostensibly, nothing in return for his endorsement. If he were to receive anything, from the borrower, that would be an abuse, which is unfortunately not unknown. It is, moreover, a capitalist transaction; for it is necessary that there should be at any rate one monied man to take part in it, giving the others the benefit of his own wealth. It is also in every case an isolated transaction, doing nothing to make credit general. And it is a temporary arrangement only, with nothing of permanency about it, since it may be brought to an end at any moment by notice. It renders some particular persons a valuable service, but it does not establish a new institution, always ready to benefit an entire

class of men in the same way. If any good is to be done to such class, permanently, and by a service which may be depended upon, the nethermost limit must be brought down very much lower than the point at which it now stands, the institution must be greatly widened and popularised, the principle of capital security must be eliminated, for it is not everybody that possesses capital; and there must be a direct community of interest established between borrower and sureties, making the organisation advantageous alike to both parties, which means, that borrower and sureties must become *one* class with *one* interest, not two, not one receiving, the other giving, but both benefiting.

To bring such result about it is that the assistance of Co-operation has been called in. And only Co-operation is in a position to accomplish it. Only Co-operation, so I should at the same time wish to add, can be in a position to produce such enormous sums in credit as have actually been set in motion. Taking into account the humble materials out of which they are created, they altogether dwarf anything that capitalist effort, however well endowed, has produced anywhere.

But my present point is that only Co-operation can bring about the desired effect. Other agencies have been tried and have failed. The cases of the *comptoirs agricoles* and the *comptoirs d'escompte* have already been quoted, also that of the *Crédit Agricole;* the telling case of Gambetta's *Caisse Centrale* might be added, also that of the *Legs Rampal* and the many well-intended loan-funds created in Germany by the Emperor William I, a late Duke of Saxe-Coburg, the Grand Duchess of Saxe-Weimar and others. All of these have failed in their object, because the one thing required for success was wanting. They represent charitably intended assistance offered by people or institutions not directly interested in the benefit. If you would make an institution of democratised credit answer, you will have to enlist the interest and efforts of those who are themselves

to receive the benefit, and furthermore to build up from the bottom to the top, so as to have a sound foundation for every fresh layer of bricks to rest upon. Nobody in the world, even if he had the apostles' power of discernment, could provide for others what they ought to provide for themselves, because only they themselves know what that something is, and only they themselves can be made answerable for its proper use. A well-known philanthropic peer some time ago sent out at his own expense English settlers to Canada. They took the free passage and the land offered—but, as their benefactor subsequently complained, soon after emigrated into the United States. What enormous sums have been wasted in this country by well intentioned persons, endowing co-operative production, or agriculture for which the beneficiaries were not yet ripe! How much better do those fare who finance themselves by their own efforts, borrowing indeed, but finding the rootstock capital for their enterprise themselves. Organise downwards from the top, and in such matters, in which the beneficiary's responsibility and interest have to be consulted, you are bound to fail, as the late Lord Winchilsea failed with his Agricultural Union. Organise upwards from below, and, if only you will be judicious in your measures, you will succeed, as the great continental co-operative credit unions have succeeded.

Hence it is false policy altogether, proceeding from a gross misconception of the elementary conditions of the case, to want to begin with the provision of *money*, to try to place sums of money, of your largess, at the disposal of people who need them, on the proviso that they will comply with conditions which you considerately lay down for them from your higher position. You cannot conceivably know what to lay down; and you cannot call forth any interest and resolution to carry the matter through. The larger the sums provided, the greater probably will be the mischief done. It is like forcibly bending an axle in a delicate piece of machinery, which act must needs set all

the wheels out of gear. It entirely alters the principle. There is plenty of money to be had. "Money," so said the late Lord Salisbury on one occasion, "is so plentiful that you can hardly get money for it; it is overflowing in the coffers of capitalists and the bankers." What you want to do is to enable the people to be benefited to *earn* the right to obtain the loans which they require for themselves.

Joint effort can accomplish that. It can create the security which is the proper, the indispensable price of credit. If you get the "100" members of the little village bank, or the 17,000 or 19,000 members of the giant co-operative banks of Milan or Augsburg, to join together in one bond, and sufficiently quicken their sense of responsibility, you may enable them to devise means for making even poor people's security, thus far unrecognised by the banks, effective. It does not follow that in practice all your beneficiaries will be poor. But suppose that they are. Their joint liability may conceivably be made to satisfy the lender of the funds required. Take the simplest and quite an extreme case—which I would not have readers believe must necessarily apply, except under special circumstances; we have ample proof to the contrary. Suppose that all those members, joining hand in hand, make themselves collectively responsible by unlimited liability up to the last farthing of their several possessions for all debts contracted with their joint consent. According to M. Durand's calculation, in a selected number of his humble Village banks in France, that would provide liability representing about eighty times the value of the money which he found to have been actually raised. I am not sure that so large a multiplicator would apply in all cases in Germany and Italy. However, in any case, if you add up the total of a man's possessions, the sum that he actually borrows will be found to form only a small fraction of such collective value. It is quite true that a forced sale would never realise anything like the figure estimated. But that is all the more reason why the man

who has made himself responsible should strain every nerve to *avoid a* forced sale. It does not by any means diminish his loss, that his "eighty times the loan" becomes under distraint reduced to "ten" or "five;" he loses the eighty. Nor will it be any consolation to him that his brother sureties fare as badly as he does; it is his own fate which troubles him. And, apart from the mere money value of the articles virtually pledged, there is some sentimental value also attaching, even for a poor man, to his *lares* and *penates*, his home, his position among his classmates. He does not want to forfeit all these things. Accordingly, he may be trusted to keep the borrower, whose bondsman he is, to his duty.

To proceed further, let us now suppose that a number of persons have actually joined together, making themselves all liable up to the very hilt—rich, if there are any, and poor. Experience shows that, once they can devise suitable organisation, that mere fact may add a most material element of further pledgeable security. Good management, prompt recovery of loans, and publicity, to proclaim the fact, will appreciably extend their joint credit. Experience shows furthermore, that, if they can only manage to raise a fair, though still only moderate, share capital, much less security than unlimited will suffice for their purpose. And it goes on to show, that they have ample means at their disposal for in their turn protecting themselves, as against the individual members for whom they procure loans.

To accomplish such purpose, they have, in the first place, of course, an absolute right to select their members according to their own fancy. They are under no obligation to elect anyone; and their interest is rather to have good men than many. The greatest mistake that they could make would be to run after "business." "Business" may wreck and drown them, as it has wrecked more banks than one, officered by foolish men who were eager for "results." The bank's business is, not to have much business—it is not a profit-seeking concern—but to keep everything

safe, in fact to hedge around its business with safeguards which make it so, even though they should render transactions a little more difficult. So it must be with the choice of members. The bank wants no black sheep, and the larger is its members' liability, the more careful will it presumably find them in the exercise of their right of election. That is the special recommendation of unlimited liability. We have seen in the Belgian *Unions de Crédit* with what effect and success even this one safeguard only, of careful selection of members, may be exercised. It is considered a great point in favour of credit associations formed among civil servants—like our own "Share Purchase Advance and Investment Societies"—that they have a select membership to deal with, any one of whom has in his position and prospects very much more at stake than he could possibly gain materially by defaulting. Within the limits of what is possible, that same safeguard should be made effective in co-operative banks. "The best guarantee of a co-operative bank," says M. Luzzatti, "is the worth of its members."

However, that by no means exhausts their resources. They have a right to examine the application for a loan, and make their granting of it dependent upon its appropriateness to the case of the applicant and its prospect of success. They have a right to lay down the rule that they will grant loans only for outlay which *primâ facie* promises a profit, or an economy, so as to reproduce itself out of its own employment; and they have a right to hold the borrower to his undertaking given so to apply the money, under threat of the withdrawal of the credit, as in the case of Scotch cash credit. In this way they may not only make sure that no money will be obtained for other than provident purposes; they may also provide for the safety of the loan; and they may make its employment a substantial security for it.

Not satisfied with this, they will furthermore, as a matter of course, require some additional security as between themselves

and their borrower, which ought, where possible, to assume the shape of personal sureties sufficient to meet the case.

This consideration incidentally introduces a point which is of not a little moment in co-operative banking. Among people supposed *ex hypothesi* to be poor, real security is really not what we have a right to ask for. If we had, it would not be advisable; for, in the first place, the very suggestion of property becoming exposed to the danger of seizure is foreign to our purpose; our people are to be trained to think of *avoiding* seizure rather than of incurring such danger; and, in the second place, pledge security, be it land, house property, or goods, is really the most inconvenient security that a bank could hold. Such pledge, if it have to be seized, may become a white elephant, and will certainly for a time lock up money. If such security is given at all, it should be distinctly made only collateral. "What I particularly like about co-operative banks," so said Léon Say, "is that they deal in *personal* credit." Personal credit, properly secured, is indeed the most convenient form of credit for the bank, and the most educating for the borrower. Real credit, since it may lock up money, ought to be peculiarly objectionable to a co-operative bank, as such institution in any case operates with only very limited capital and, it may be, with none at all. There is also no occasion for real credit, because the entire business of a co-operative bank is based upon mutual knowledge among members, of their several persons, their qualities, their positions, their business. It is, in truth, such knowledge, the vigilance exercised, the close touch maintained, which makes the co-operative bank at all possible and its business successful. Personal credit, therefore, will have to be the form of credit upon which co-operative banking will, in the main, have to be built up. In diffusing personal credit, in educating up to its use, making it more generally understood, more secure by the additional safeguards which, within its own modestly endowed sphere, it must of

necessity impose, co-operative banking will be found rendering to the community at large an even greater service still than that with which it has benefited Germany, by introducing the cheque and the clearing-house; and Italy, by reforming its banking methods. The extension of personal credit is bound to set free springs of productive power which, not being dependent upon the weight of real security, are the more widely applicable and resilient, although thereby sacrificing nothing, as experience has shown, in respect of safety.

Having now laid down our ruling principles—a junction of forces, a sense of responsibility awakened, discrimination in the election of members, caution and inquiry in the granting of loans, and vigilance in the control of their employment—it will next be our business to consider how best such principles may be made effective.

The first condition, quite indispensable, is, that the constitution of the bank should be thoroughly republican and its management entirely representative. If every member is to bear his own part of the burden, obviously every member must also have his own equal say in the management. That bars out altogether, and from the outset, all such forms of organisation as, for instance, that of a joint stock company, in which a Board, practically co-optative, manages affairs, and members individually hear little about them. It also bars out, as absolutely, the abomination of a distinction between different classes of members—speaking generally: rich and poor, privileged and unprivileged, benefactors and beneficiaries, "gentlemen" and ordinary members—such as no one who knows what a co-operative bank should be would ever dream of suggesting, since it is utterly destructive of co-operative principle, but as, nevertheless, has, under well meaning but inexpert guidance, found its way even into the United Kingdom. The Co-operative bank must be genuinely co-operative. Without perfectly equal rights accorded to all members, without the affairs of the bank being as much

t within their ken, and made subject to their control, the local knowledge possessed will be wasted, the sense of responsibility awakened will be weakened, vigilance will become illusory. In a model little Village bank everything is done in the broad light of day, and that fact alone keeps interest and the sense of responsibility alive. Members crowd to the meetings and keep themselves informed by inquiry in the intervals. As banks grow larger, direct management by, or in sight of, all members becomes impossible. The business becomes too bulky. However, as much as possible, the principle of direct influence by members will still have to be maintained. A bank falls off—there are plenty of examples—in the precise degree in which the interest of members becomes relaxed, in which they absent themselves from meetings and treat their bank, for which they are responsible, as a merely outside business concern. Certain tasks have necessarily to be committed to various Committees. However, every one of those Committees will have to be freely elected, so as to secure representation, if there should be different sections or sets of people within the bank, for every particular section, social, economic or local. And the Committees must be held strictly responsible.

The observance of this rule practically implies, as a safeguard for the active participation af all members, the study of that "maximum of publicity" which Sir R. Morier has rightly laid down as one of the three cardinal conditions indispensable to success. Information about whatever has been done must be at any rate accessible to every member. And the rendering of accounts by such administrative bodies as exist, at the end of the year, or at other periods, must be made a reality. (Publicity keeps out corruption and abuses as daylight and pure air keep out decay.) And it has a substantial value also beyond the narrow circle of members of the bank, as our surviving private banking firms own, when, without any legal need, they publish balance sheets. Publicity outside the bank

makes the merits and solidity of the bank know[illegible] public, to whom in a large measure, of course, that bank must look for a supply of its working funds. Its particular business is to attract a maximum of such funds, and, accordingly, every proper means ensuring such result will have to be carefully studied. The great *Banca Popolare* of Milan, which has risen to the rank of the premier bank of its city, when starting on its career in 1866 with just £28 in its possession, secured the confidence of the public by posting its daily balance sheet outside its office door regularly every evening. The *Banque Populaire* of Mentone, beginning business nearly twenty years later, with a considerably larger, but still only a modest, share capital, followed the example, and by such means assured the same result. There can scarcely be too much publicity—except, of course, in respect of individual deposits and in respect, also, of the allowable credits to each member, put down for the confidential guidance of the manager.

The next safeguard to be observed is control. Control cannot be made too searching or too severe. All the bank's success depends upon it. Our British propagandists, who make the election of a controlling Council purely optional, have in truth missed the main point of the gospel which, as apostles not having previously been disciples, they have set themselves to preach. There must be, not auditing only, but overhauling of accounts and systematic examination of all that has been done. In careful banks, accounts are in this way passed through two or three special examinations—by a local committee, by a skilled banker, and by inspectors appointed for a number of banks —in some cases, in addition, even by an inspector of inspectors. No investigation, indeed, can be too searching. And the result must be made known to the members, to admit of their judgment upon it. By such means effective control by members, carrying vigilance, a sense of responsibility, and the rest of it in its train may be assured. Of the administrative machinery to be set u

the business I shall have to speak under subse-ent heads. *Il ne suffit pas*, as Léon Say well reminds us, *d'avoir e bonne machine, il faut aussi avoir un bon mécanicien.* That the members' affair, and very careful they should be to secure od administration. But good machinery, as will be shown, n of itself effect much.

However, if the bank is to accomplish its object permanently, founders will necessarily have to think of its permanent existence, the primary condition of which is the command of funds, *which must be kept steadily increasing.* An institution of this kind, which does not use forethought, and study steadily to strengthen its position, may be considered as doomed from the outset. Hence, whatever be the strength or weakness in which the bank begins, whether it start with liability only, as was Raiffeisen's ideal, or with a substantial share capital, to be gradually paid up, which was Schulze-Delitzsch's precept, it will necessarily have to endeavour steadily to increase its funds, it may be by adding to its share capital—more commonly it will be by amassing a substantial reserve. And that does not exhaust its duty with regard to money. To enable it to carry out its task with the utmost efficiency, it will have to do all that it can to attract working funds, over and beyond its share capital and reserve. The readiest, the most legitimate and the most effective way of doing this, for an institution in its own position, is by the promotion of thrift among the local population and the attraction of local deposits. Its collection of funds also should not be dictated by purely egotistical motives, because it is emphatically not an egotistical institution, but an institution designed to perform a public service in teaching its members to create capital. Obviously, strong members make a strong bank. Accordingly, it will be the bank's duty to encourage the accumulation of capital in the possession of its members, as much as in its own coffers. That disposes in itself of the suspicion, that a co-operative bank is merely a channel

through which conveniently to convey ephemeral ... so to speak, leave the land, momentarily irrigated, finally barren as it was before, and produce merely ephemeral verdure.

By such means as those described, it has proved practicable at length to bridge over the gaping chasm which has so long separated want from wealth, latent power of production from the means of using it, to devise out of materials for security scarcely suspected, and certainly feeble in themselves, a new kind of security which has proved equal in efficacy to that forged out of capitalist gold, or feudal broad acres. For it is a particular and justified boast of co-operative banks, that in them losses have been infinitesimal, and statistics conclusively establish this fact. Wherever the recognised principles and safeguards of co-operative banking have been observed there has been no loss. "It is," in the words of M. Maggiorini Ferraris, at that time a Cabinet Minister in Italy and himself foremost in the co-operative banking movement, "inconceivable how a properly managed co-operative bank can go wrong."

Co-operative credit has, indeed, in a manner shown itself more effective than capital could have been made under similar circumstances; for, instead of leading to distraint and foreclosure, it has directly prevented such, and made it, not people's interest only, but their recognised aim, to avoid the necessity of seizure. Among poor, struggling people this is something to take credit for. But members have been brought to feel, that it was not their little wealth only, but their reputation, their position among their equals, their future, which were at stake, and the peril of forfeiting them has made them careful.

I hope that thus far I have made the general principle clear. The manner of its working will be more fully set forth in further chapters.

CHAPTER IV

SHARE BANKS

v "Share banks" I mean co-operative banks which make
ire-c... the outward and visible sign of their security,
mbership, of their existence, whatever be the particular
t, simply b adopted—in contradistinction to "Unlimited
they are ap which rely in the last resort upon the un-
w blending of each member. According to M. Paul Leroy-
al state of s in this connection no other foundation for
g conceivable; and no other certainly has yet been suggested.
ne can scarcely help noticing a rather striking similarity in
feature with joint stock companies formed under our Com-
ies Act, severally with liability limited by shares and by
rantee. It would be a gain to the co-operative banking
ement, if the same distinction could be introduced into our
ident and Industrial Societies Act, which at the present
recognises only limited liability, and thereby leaves us no
e in forming unlimited liability societies (such as rural
it societies necessarily must be), but to fall back upon the
ndly Societies Act. That Act, favourably as it has been
rpreted for our use, is by its very nature not as fully suited
our purposes as the Provident and Industrial Societies Act,
indeed it was designed for a totally different purpose.
Ve shall do well in the consideration of our subject to bear
Leroy-Beaulieu's distinction, already referred to, constantly
mind. For the different foundations accepted for security
explain the necessarily different methods adopted to make
security effective. Such difference is not arbitrary, or dictated

by caprice; it follows naturally from differences in the system. The distinction so made will save us from going astray in fanciful classifications of co-operative banks, such as that which calls one class "agricultural" and the other "urban," as if two different scenes of operations required essentially different organisation. As a matter of fact, although what people insist upon calling "agricultural banks"—of the Raiffeisen or some similar type—are, generally speaking, quite unsuited for application in ordinary urban districts, with their dense and frequently shifting population, what some people are pleased to call "urban banks" render quantitatively more substantial services, than [illegible] benefit of agriculture, even amid perfectly rustic conditions. If ever our larger farmers were to seek the service of co-operative principle banks, "Share banks" with limited liability, what [illegible] observed call "urban" banks, will have to be the type Maggiorino [illegible]

What makes the difference between the two types is not "town and "country," but the distinct object pursued, and the particular kind of security created. Wherever the population is dense and, it may be, shifting, wherever money keeps changing hands readily, and there is no serious difficulty about raising what is wanted to purchase a share, wherever, moreover, business is active and credit is generally wanted only for short periods, no matter whether the district be agricultural or urban, the Share bank will be found out and out the most suitable form to serve. It admits of larger business, and has, in fact, produced results quantitatively out of all comparison with that of Village banks, much more numerous though the latter are. The large farmers of the Lodigiano, of Upper Bavaria, of the Insterburg and other districts, could not possibly be adequately served by rural loan banks, "Village" banks as I call them. They are admirably served by Share banks. Where, on the other hand, population is sparse, but fixed on the soil, where money is scarce and whatever may be required to buy a share can be raised only with difficulty, unlimited liability banks will be the form t

They do not lend themselves to individually as large ...s as the others; but they penetrate where the others ...ald not possibly go—into every crevice, like a root-fibre ...hing its way down to the barren gravel of the subsoil, to ...w very bedrock of destitution. Such strata the founders of share banks deliberately refused to cultivate, except as a matter ...arity and of almsgiving, not of membership. They made the ... to buy a share the *sine quâ non* of admission.

Share banks without doubt Schulze-Delitzsch's golden rule ...ood, that the more varied in respect of callings is the ...mbership, the safer will be the foundation on which the banks ...t, simply because in different callings want and abundance of they are apt mutually to supplement and equalize one another. ...blending of callings, accordingly, tends to bring about that ...al state of balance between supply and demand which makes ...siness easy.

However, even in Village banks, the broader is the basis in ...spect of callings, the more of the brisker un-agricultural business there is to mingle with slowly moving agricultural business and carry it along, the better will a bank fare, although that does not preclude business purely among agriculturists, wherever circumstances may require such.

I am now dealing only with Share banks. But that does not, ... it happens, dispense me from considering unlimited liability. For there are Share banks with unlimited liability as well as with limited, and others with a curious intermediate liability, very much in vogue in Germany and in Austria. The question is not likely to cause us much trouble in the United Kingdom. However, since for Village banks unlimited liability is indispensable, it is quite possible that there may be misunderstandings, as in fact I have already found them to occur. It will therefore be better in the interest of clearness of views to deal briefly with the subject.

...y, to be plain, I cannot think that in Share banks—at any

rate outside Germany and Austria, where people hav[illegible] accustomed to it—unlimited liability is at all in place, ab[illegible] things because there is serious danger that in such conn[illegible] its nature and object may be misunderstood, and its obli[illegible] may accordingly not be fully realised, which can scar[illegible] to lead to mischief. I am quite aware that there are [illegible] co-operators of a different opinion. Of such was the l[illegible] Ziller, the "father" of Austrian co-operation. Of s[illegible] was the late Arrigo Valentini, Managing Director of t[illegible] *Co-operativa Milanese*, who held unlimited liability to be [illegible]ly essential for *any* co-operative credit-institution, although his own had as a matter of fact adopted limited liability. That was because he believed that no other form of liability could bring forth that undefinable but invaluable possession of a co-operative institution, "co-operative spirit," the feeling of "brotherhood" which it is most desirable to produce. Schulze-Delitzsch's followers recommend unlimited liability on altogether differ[illegible] grounds, namely as a help to easier credit, more particularly in the infancy of a bank, when the want of credit is apt to be greater than the supply. If that proposition were allowed a co-operative bank would never be able to do without unlimite[d] liability. For periods of scarcity and tight money are apt t[o] recur even in the oldest established banks. In 1895 I foun[d] the German co-operative banks overflowing with money, n[ot] knowing what to do with it, passing resolutions to the effe[ct] that shares must not be further paid up. A few years later, when we had called in our foreign investments to pay for the Transvaal war, the same banks were thankful to raise whatever they could to fill their empty cash-boxes.

My point is, that where unlimited liability is employed only as a prop, not as the main pillar, where it is not applied so as to make people realise fully what it involves and be on their guard against abuse, it is likely to be made light of, and so to lead societies into loss. No doubt, under circumstances, unlimited

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the State, lik

liability, or even liability only partially limited, may prove an exceedingly valuable help to credit. The German and Austrian laws require that, even under liability termed "limited," each shareholder shall be held liable to creditors, in the event of liquidation, for an additional sum, equal at the very least to the value of his share, or of as much more as he chooses to agree to. There are banks in which members make themselves liable for fifty times the value of their share, and even 1000 times, and more. That occasionally helps them to large credit with very little actual present sacrifice. But at the price of what danger! The Belgian banks at the outset faithfully copied their German model in all things, such fancy liability included. And thus it came about that a few years ago I found a bank in Belgium, of rather a capitalistic cast, numbering about 1500 members, every one of them liable for his own share, and 25 times its value besides. In virtue of such conditions the bank enjoyed almost unlimited credit with the National Bank. For the National Bank had ascertained that of the 1500 members 1000 at least were fully equal to their liability. Another case, likewise taken from Belgium, proves the correctness of my apprehension as to the probable effect of unrealised liability. In the bank to which I refer, liability had been altogether unlimited. It was proposed to limit it to fifty times the value of the share, and people at once cried out that they could not possibly burden themselves to such an unreasonable extent. Up to that time they had been liable up to their last farthing, but had never realised this.

That foreign fancy liability strikes me as an extremely dangerous institution. It was intended by the legislature to make members careful, by saddling them with what was to serve as additional security to creditors. Its actual effect is only to make assets uncertain, and, after reckless engagement of liability unrealised, to bring down the burden with unexpected weight upon such as are able to bear it.

In co-operative banks, of all institutions, where familiarity with business is supposed to be slight, unrealised, unsecured liability is the danger of all others to be avoided. This word of warning unfortunately appears to be not uncalled for in the United Kingdom; for already I have found a disposition to imitate the Germans in piling up unsecured liability on the foundation of a very small share, mainly for the convenience of large credit, in an over sanguine spirit likely to lead to disappointment.

There is really no reason why this question of limited or unlimited liability should divide co-operators. Schulze-Delitzsch though he long stood out sturdily for unlimited liability, gave way to the other view before his death, allowing limited liability to be admissible. And his successor, Dr. Crüger, who pleads for unlimited liability as a distinctively "German" institution, as well as on the ground of utility, frankly owns that there is no question of principle involved in the point.

In Italy, M. Luzzatti, when transplanting co-operative credit into his country, from the very first moment recognised that he could not ask his countrymen to accept "an economic tradition of Germany," so full of danger, which, in the words of Sir J. Lumley *, "must have deterred persons of means and education;" which, according to M. Ettore Levi, would have prevented people from "joining an association which threatened them with such grave danger;" and, according to M. Giustino Fortunato, must have made co-operative banking "absolutely impossible in the South of Italy." Accordingly, he introduced limited liability, as we understand it, that is, liability limited absolutely to the amount of the share, with nothing whatever hanging over. And he has found it sufficient. It is quite true that he had his path made easy for him by the favourable disposition prevailing among both savings and business banks

* See "Reports by Her Majesty's Representatives abroad on the Systems of Co-operation in Foreign Countries. — 1886."

to assist his co-operative banks with credit. In France, where the State, like our own Treasury, claims all the savings banks deposits for its own employment, co-operative banks have not found credit quite so readily attainable on the same terms. However, taking all things together, the balance of convenience and advantage for new countries certainly seems to lie on the side of limited liability.

There is also this to be said in its vindication. If unlimited liability facilitates credit, limited facilitates a larger accumulation of share capital, wherever a disposition for it prevails. This, on Schulze-Delitzsch's own showing, is a matter of the very first importance. Where liability is unlimited, members naturally take up only one share. That is the accepted rule. And why should they take up more? Now let that share be as large as it will, nobody would go beyond £50; and only in rare cases is that the figure. That leaves the bank with just £50 in hand—when it gets it. For it will have to be borne in mind that such large shares are actually paid up by a very slow process. In the *Schweizerische Volksbank*, which on this point closely resembles Schulze-Delitzsch banks, the 1000 francs share may be paid up by monthly instalments of 1 franc at a time, which allows something over eighty years for full payment. Where, on the other hand, liability is limited, a member may take up a number of shares one after another, up to £200—that is the maximum figure now in all countries—and so supply his society with larger funds. However, unlimited liability shares are not invariably large. The very fact that liability is unlimited, and therefore may be held to act for certain purposes as a substitute for share capital, tends to reduce the value of the shares issued. Why should members pay both in grist and in meal? Dr. Crüger recently found that, among a considerable number of German co-operative credit societies furnishing returns, 46 per cent had shares of less than 10 marks (or shillings), 2½ per cent of less than 1 mark. That would scarcely have happened if

liability had been limited, and share capital had thereby been made really to answer the purpose for which, according to M. Leroy-Beaulieu, it was intended, namely that of "a capital of guarantee." The direct tendency of unlimited liability therefore is, to impede the accumulation of a large share capital, which Schulze-Delitzsch and his followers nevertheless insist upon being most desirable.

A further objection to unlimited liability, in my opinion, is that it forms a temptation to what is decidedly unco-operative, that is, the allowance of a large dividend to capital. The practice is, unfortunately, not absolutely confined to unlimited liability banks. It has become very general, and is answerable for a great deal of bad practice. The co-operative principle is that capital should receive exactly the interest which is usual for it in the market, and no more, only so that a maximum be fixed — just as in our "philanthropy plus five per cent" societies. Capital, so it ought to be remembered, is in a co-operative society not the master, but merely the raw material. The joint stock company is a union of *money units*, each of which carries a vote. The co-operative society is a *union of persons*. Those persons do not, like the shareholders in a joint stock bank, join together to earn a profit out of others. They deal only among themselves. They combine, not as dealers, but as customers. Their object is not profit, but a cheap banking service, alike for all. There must, accordingly, be only one interest in the bank, and that the customers'. The members' stake in the concern, to employ an accepted French term, their *mise*, accordingly, ought to be considered rather as a "contribution," a *part sociale*, than as a "share," *action*. The "share" is an *investment* of a definite value at starting, which value successful or unsuccessful operations may increase or diminish. That is a trading conception; the object aimed at is profit. The "contribution" is money paid towards a common fund, with which to create a common service. The aim of profit

arises only outside such service, as its secondary result. Limiting the amount of the contribution, paying interest upon it, and making it returnable in the case of a transfer alter nothing in its essential character. Recognised as a "contribution," it becomes insusceptible of appreciation or depreciation. And that is the co-operative conception of the thing. To set up a capitalist's interest by the side of the borrower's means unavoidably to bring in duality of purpose, and accordingly friction and confusion, in which the weaker interest — which is just the one for the support of which the bank was formed — will necessarily suffer.

I will illustrate this by what I have seen in a small country bank in Hesse. But there are many similar examples, both small and great, to be met with, in various countries. There were about forty members in that bank, the number being purposely kept down by means of comparatively large shares (50 marks each) and an entrance fee, which was likewise purposely fixed at a high figure, though it had recently been reduced from 25 marks to 15. The forty members, by dint of trading upon about 300, who should have been members, and who received 3 per cent on their deposits, earned for themselves 10 per cent. The device of fixing the entrance fee high, in order to keep down the numbers of members and secure an usurious dividend to a few shareholders, though a flat negation of co-operative practice, is not unknown in other places. Herr Wrabetz recently publicly reported the instance of a *soi-disant* "co-operative" bank in Austria, which keeps its membership small and select by means of an entrance fee fixed at no less than 600 crowns, that is, more than £24! All such abuses should be avoided.

The effect of high dividends is to be observed in a different form in some cities of Italy, where they have driven up the market price of the share—dealt in on 'change like any other securities, which is distinctly bad from a co-operative point of view — to 200 (for 100) and more. Dividend was not, at the

outset, limited in those banks, because it was not anticipated that there would be a substantial surplus to divide. That is M. Luzzatti's explanation for Italy. In Germany, Schulze-Delitzsch evidently doubted his power of attracting capital, the coyness of which he certainly overrated. As a matter of fact, Capital, once it had its reasonable curiosity satisfied, has proved anything but coy. "We have succeeded too well," so exclaimed M. Luzzatti in 1889, at the sight of the abuses to which I have just called attention; "we have suffered, not from scarcity, but from superabundance of money." There is no occasion whatever to be nervous about the command of capital. Capital wants to reconnoitre its ground. Once it is satisfied that the ground will bear, it comes upon it willingly. Once the mischief was done, remedial action proved difficult. To some extent constant warnings and rebukes appear nevertheless to have served their purpose and, though not limited by the rules, in Germany dividend is (now) in practice generally kept down to 5 or 5½ per cent. In all newly constituted banks dividend to capital ought to be strictly limited. Co-operative institutions belie their own character and object in allowing profit beyond the current rate of interest to capital, as if that were the main factor of production. Their object is, to make it the hired servant of employment, to be bought in the market (in return for security) like any other commodity. It matters little in principle whether dividend be limited to a certain figure, or to the rate currently charged on advances, with or without a deduction. (The rate allowed on deposits would be too low.) In ordinary circumstances a fixed rate, say 5 per cent, or 4½ per cent, as maximum, will probably be the most easily understood.

In truth, dividend belongs to capital in co-operative banks just as little as it does in co-operative stores. Both are, as has been said, in contradistinction to joint stock companies, not unions of capital, but unions of persons—of persons who combine to bring *custom* to the shop, which custom becomes the deter-

mining element of success. It is *custom* which earns what is misnamed profit, and, after due allowance is made for reserve (which must have the very first, and that a very substantial, claim in banks necessarily weak in capital at the outset), to custom the dividend should go. This is a truth plain indeed; but for all its plainness it has been allowed to lie hidden in a well for many decades. It is only quite recently that it has been brought to the surface—in Belgium by M. Micha, and in Italy by Professor Vivante—and has had its claims allowed in a very few banks, which now out of annual profits allow a *ristourne* (corresponding to "dividend" in stores) to customers, according to the business done.

Ristourne would, of course, have found its way into co-operative banks very much sooner, and much more generally than it actually has, but for "unlimited liability," which has, in truth, from the outset set up, inside the bank, that "second" interest, the interest of capital, to which I have objected. Dr. Crüger will not allow the *ristourne*, and for this quite tenable reason, that share capital, being burdened with "unlimited liability," and being therefore answerable for all contingent loss—which "custom" *cannot* answer for—is rightly entitled to a more substantial benefit than mere ordinary bank rate interest. It is entitled to a premium for risk. There is no gainsaying this. But, on the face of it, it is a mischief. It is calculated to denaturate the character of the co-operative bank. The difficulty would disappear at once were liability made limited, as it is being made to a larger extent from year to year under the permissive clauses incorporated in the laws severally of 1889 and of 1903, in Germany and in Austria.

So much for liability. We have now to consider what is the best value of a share. At this point we find ourselves on sharply contested ground. No doubt the bank will be all the better for it, the larger is the capital put into it by means of shares. In the best of cases that cannot amount to very much,

From such point of view Schulze was right, up to a certain point, when he asked for as large shares as might be placed. He laid it down that the individual share should, if possible, be £40, or £50, but not in any case less than £5. Now a £5 share for a "people's" bank seems quite stiff enough. Of course it was not intended that the share should be paid up at once, or that the enjoyment of benefits should be deferred till the share was cleared. Benefits begin as soon as the first instalment is paid in, and the instalments may, as we have seen in the case of the *Schweizerische Volksbank*, be spread over a very long period. But the share Schulze would have big, if possible. At the present time the mean value of shares in his banks stands somewhere about £15. And in respect of banks with limited liability (in the German sense of the word) a congress of Schulze's followers and pupils has recently laid down £25 as the desirable minimum value.

But, then, on the other hand, our supposed members are many of them poor, and a share of any magnitude may mean a serious sacrifice to them, so serious as to deter them altogether from joining.

We shall also have to bear in mind, that a large capital is not at the outset asked for. M. Leroy-Beaulieu advisedly speaks of a "small" capital; and a capital, not to trade with, but of "guarantee," a stake put down, forfeitable to lenders, and intended to attract other money. The *other* money will be the money to trade with, at any rate in the main.

One little instance from practical experience will make my meaning clear. The great Savings Bank of Lyons, like some other well endowed and well intentioned institutions of the same kind, such as the National Savings Bank of Belgium and the admirable public Savings Bank of Parma, makes a point of starting Village banks in its district with its help. It does this with the object of doing good, and also of creating additional receiving-offices for itself. To this end it has had suitable

rules drafted, and it offers to any Village bank forming, which adopts those rules and submits to its supervision, to advance to it £2 for every £1 subscribed in share capital. The idea is, that in the event of a loss, members stand to lose their £1, before they can lose the depositor his £2, for which reason they will do all that they can to avoid loss. Now in banking, £2 lent for £1 laid down, is a very moderate proportion. There are co-operative banks which, relying upon their own means of securing credit, take in deposits £5, £10, even £20 for every £1 laid down. In Italy the average proportion between share capital and loan capital at present is as 1 to 8. Accordingly, a small share capital, if supported by such able management as will earn the bank a good name, may be made to go a long way. Under such conditions it is the good management which secures the bank its credit, and large shares are not indispensable.

However, there are times when it is share capital that tells. And those are precisely the times in which it will be all-important to the bank that it should not lose its deposit money. When all goes smoothly, in the piping times of peace and plenty, the bank is likely to be judged rather by its management than by its share capital. In times of crisis and disturbance, on the other hand, people are likely to look mainly to its capital for their safeguard. Therefore, so far as it can be managed, a substantial share capital will always be an advantage.

Schulze-Delitzsch may be assumed to have scarcely been thinking of this when he laid it down that shares should be large. His object avowedly was to compel his co-operators to exercise thrift and lay by. And that is why his credit societies have come to be known as "Compulsory Savings banks."

It is quite conceivable that both his point, and that of providing a substantial capital of guarantee may be met by other means, such as would not tend to deter poor people from joining by asking them to commit themselves to taking up large shares. Members may be induced to take up more shares than one,

everybody in this matter following the dictates of his own fancy. In this way a substantial share capital may be got together without hardship being inflicted upon anyone. On all grounds therefore, there seems not a little to be said in favour of the newer system introduced by M. Luzzatti in Italy, which has become the accepted system in all new countries, that of making the shares small, but calling up the money for them within a short time — as a rule by ten monthly instalments, and only in rare instances in twice that period.

This change, so it will be seen, introduces quite a new order of things into the organisation of a bank, which, it is quite true, is not without its drawbacks. Undoubtedly, under such system, at the outset the bank is likely to have a smaller fund of security to trade upon. But, on the other hand, all that is subscribed it will, after very little waiting, find actually at its command in its own till, with no unpaid instalments of doubtful quality hanging over and making its assets a questionable quantity.

In addition, the system, by this means, becomes very much more elastic and adaptable. It becomes adaptable to all varieties of circumstances and of equal utility for all classes. Are the people for whom you desire to create a bank poor? Very well, then make your shares small. One of the best little banks of Italy, the *Società maschile e femminile* of Bologna, which provides credit, very effectively, and with much co-operative spirit, for very poor people, has only 4*s*. (5 lire) shares. Nobody likely to want credit will shrink from committing himself to the payment of 4*s*. in ten months. Other banks have 8*s*. (10 lire) shares, many 16*s*. (20 lire), probably the larger number 32*s*. (40 lire), and there are no shares permitted above £4 (100 lire). Under such a system you see co-operative banks, pretentious or humble, working side by side, sometimes in the very same town, *étagées*, that is, ranged in tiers, as people call it, to provide for wants of all kinds, the medium trader, the well-to-do artisan and the small labourer.

The actual extent to which M. Luzzatti's system has succeeded in Italy, and has spread beyond, goes some way towards establishing its sufficiency for the case to be dealt with. And it has been generally found rather to facilitate, than to render difficult, business-like arrangements. No doubt the substantial assistance, which M. Luzzatti's banks readily obtained from the very outset, both from savings banks and from business banks, has constituted an important factor in the matter. A free credit with such institutions undoubtedly greatly facilitates working with a small share capital. The matter is of some importance. In Italy the business banks at once realised that here, in the co-operative banks, they were confronted, not with rivals, but with feeders for themselves—feeders laying, by their "democratisation of credit," as Léon d'Andrimont has called it, extensive new territories under tribute to themselves, who were masters of the capitalist market, introducing for their benefit that humble, but paying "third class traffic," which is never cultivated without good returns. Savings banks, not being tied by the leg to a greedy Treasury, as in the United Kingdom, but left to carry on their high mission with that "single eye," commended in the Gospel, to the promotion of thrift and of useful employment of the money collected by it, were free, and glad, to diffuse thrift by means of new machinery over new areas. There has never, in Italy, been any jealousy between savings banks and People's banks, any more than between business banks and People's banks. The latter showed from the outset what stuff they were made of. The first among them actually courted publicity and inquiry, posting its daily balance sheet outside the office door every evening. As soon as the banks ascertained that the new institution was well managed, they gladly gave their help, mainly by discounting bills. "In doing this," proudly says M. Luzzatti, "they have only studied their own interest." They wanted business, and business the co-operative banks brought to them. But their help was none the less useful for the

progress of the People's banks. Will our British banks show themselves equally enlightened?

In France, where the same help has not been forthcoming—and could not be, so far as the savings banks are concerned, because the State, like our own Treasury, claims all their money—the success of small shares has not everywhere been equally great, and accordingly it is doubtful whether, though at the loss of a little popularity, they might not do well, wherever the wheels want greasing, to raise the value of their shares.

The Italian People's banks have found means of proving their gratitude to the other banks by more besides prompt repayment of advances received. On their first creation they found, as Dr. V. Magaldi has recently testified in an admirable paper read at a Liège congress, Italian banking, old established indeed, and generally understood, but backward to the degree of recalling, as M. Magaldi puts it, "the economic middle ages." Acting with the same ready resource as their sister institutions in Germany, which first created clearing-houses in that country and made the cheque popular, the Italian People's banks introduced modern methods into their country, and so shook up the "old ladies" of the Tiber, the Po and the Arno, as to infuse perfectly new life into their stiffened limbs and bring Italian banking up to date. They have, in their turn, been rewarded for this, by conquering a good slice out of the business banking and establishing their superiority over the older banks—I regret to say to some extent by forsaking co-operative purity for business prosperity— in the North.

We may, I think, take it that, generally speaking, a small share, to be paid up within a brief period, is sufficient for our purpose, but that co-operative banks will do well to encourage their members to acquire more shares than one as time goes on, so as to strengthen their capital as much as can be done. *Pecuniæ obediunt omnia.*

In dealing with shares the question of value is not the only

point to be considered. Be the share large or small, a second question arises, which is this: is the share to be withdrawable or not? The bank, of course, would wish all shares to be non-withdrawable, in order that it might keep its capital together, as our Industrial and Provident Societies Act in fact would make it do. For withdrawals must necessarily weaken a bank at that most sensitive point, the point of capital. So much is this felt, that in some co-operative banks notice received of withdrawals which would reduce the bank's share capital by a fixed proportion (in the *Schweizerische Volksbank* it is one fourth) is by rule made a cause for at once summoning a general meeting of members to decide whether the bank is to go on or not. On the other hand, withdrawable shares are likely to mean a larger number of members. For the more readily people know that they can get out, the more willingly are they likely to come in. On this matter it is difficult to lay down a hard and fast rule. In the United Kingdom, as observed, the law settles this question for us, and there will be few to object. If, however, withdrawable shares should be allowed, it will be necessary carefully to surround them with conditions, to insist, for instance, upon fair notice, and make withdrawal permissible at all only at the end of the financial year, beyond which term of course liability for *new* engagements naturally must cease; whereas the outgoing member will in fairness have to be made liable for his share in *past* engagements up to a fixed period—under the German law it is two years, which is none too long in view of the liabilities maturing. To make the term shorter must necessarily mean to deprive creditors of security, as a matter of fact already pledged, and so would only deprive the bank of credit.

Entrance fees, being non-returnable, do not help us much in this matter, certainly in this class of banks, though, no doubt, their general tendency is to keep members in a bank. However, the figure fixed is bound to be so trifling wherever

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sound principles prevail, that it cannot be expected to exercise any determining influence.

However, there is another institution, important in any case, which may become effective for helping to keep members in a bank. The smaller is the share capital—and small it will almost necessarily have to be in a bank catering, at any rate potentially, for comparatively poor folk—the more imperative will, as a matter of prudential practice, the duty become of adding to the working funds of the society, as far as circumstances will permit, by other means.

The first and most convenient means for doing this without question is the reserve fund, which, of course, any business institution governed by sound principles will in prudence want to accumulate. I have noticed in some of our British infant institutions a disposition to stint reserve in favour of dividend. But that is the falsest economy conceivable under the peculiar conditions. For a co-operative bank the accumulation of a sufficient, nay ample, reserve fund, not merely as a means of guarding against calls upon members in the event of loss, but as an addition to capital, is, by the very nature of the case, a matter of immeasurably greater importance than it is to any ordinary bank, which as a rule begins with a substantial capital. The need is of course greatest where share capital is smallest, that is, once more, in unlimited liability banks. But it applies indifferently to all co-operative banks, because all begin with little capital. Very rightly, therefore, do prudent members of co-operative banks make a great point of this, going sometimes even to the length of willingly incurring sacrifices at the outset, in order rapidly to stiffen their backbone of cash, which is their "guarantee." Really, the sacrifice of paying a somewhat larger interest on loans than is strictly necessary in the earliest period of the bank is less burdensome than it looks. For in part, at any rate, the overplus comes back to those who pay, more particularly so where there is a

ristourne. There are not a few good co-operative banks which have wisely carried their reserve fund beyond the figure of their share capital. In truth, in a co-operative bank, the share capital is not a fair standard at all by which to measure the proper volume of the reserve. The share capital represents merely the money that is there, not the money that is wanted properly to carry on the trade which is being done. The bank's *actual liabilities* would be a much more appropriate standard, though that must necessarily fluctuate. And the view that this is so is spreading. Some people would have the reserve fund eventually take the place of the share capital altogether, redeeming the latter as the bank grows stronger, and producing in the end a common fund to which no individual, as such, could have a claim. That may be a right aim to make for. It does not really concern us here.

Under existing laws the reserve fund will, in a Share bank, belong to members, who, on the bank's coming to an end, will legitimately share it out among themselves. However, until the bank comes to that point, the reserve fund belongs to *the bank.* No individual member has, as such, any claim even to a portion of it, and the retiring member by his retirement simply forfeits his share in present indirect and eventual direct benefit. Accordingly the more substantial the reserve is, the less willing is he likely to be to forego that share. On this ground then, as well as on the more weighty grounds already enumerated, will it be desirable to do all that is possible for the accumulation of a large reserve. In truth, too much attention can scarcely be directed to this point.

Most co-operative banks make their reserve fund available for employment in their own business, and this is perfectly legitimate—not merely as a means of strengthening their working funds, but also as a safeguard against speculative investment. No co-operative bank is likely to care to tie itself down for its capital investments to public securities only. And, once you

get beyond that limit, you can scarcely tell in what speculative investments optimist managers may land you, once you give them the necessary power. Now, speculative ventures are a thing which, above all other, a co-operative bank must be careful to avoid. There are banks which do not. I know of some which have very materially improved their position by clever operations in shares—in some cases under able administration following upon bad, from virtual insolvency to comparative wealth. This is, however, altogether contrary to good principle. Under its own management the bank will know what becomes of its money. It will take care that all is safely laid out. Therefore there can be no harm whatever in its making its reserve fund available for such purpose.

I think what has been said disposes of what I may call the capital side of the question, the subject of the visible security that a bank has to offer, which may be said to constitute its first line of defence. Under ordinary circumstances, as already pointed out, once a bank has made good a certain position, good banking practice, though at the outset taking a second place, is likely to tell more with depositors than capital. A bank which shows good practice, which keeps all its engagements, adopts good business-like methods and makes all these virtues known to the outside world, by what Sir Robert Morier has rightly numbered among its three cardinal virtues, that is, "a maximum of publicity," may be trusted to obtain all the money that it may stand in need of.

Now how is good banking practice to be secured in a co-operative bank? I have heard co-operative bank managers complain that the republican form of their constitution tends to hinder business rather than help it, that autocracy, leaving the hands freest, is the ideal form (They forget that it is the republican form which absolutely secures them custom.) And managers of banks, which from co-operative had become joint stock, have owned to me in a visible spirit of self-congratulation

that the entire conditions of their management had by conversion been changed materially for the better.

The problem is, however, in reality not nearly so difficult of solution as at first glance it is apt to appear; and from the bank's own point of view, and the point of view of those who trust it with money, malcontent managers' complaints and jointstock bank managers' jubilations may be shown to be equally misplaced. In saying what they do, these gentlemen are thinking of "business." However, the co-operative bank's object is not "business." Its business will be, and will have to be, just what its members bring to it. It was formed for their convenience as customers, to render them a service. Its true object is "safety." And to provide safety the co-operative form affords infinitely better means than the autocratic or jointstock form. For it makes the mass of members, whose capital is at stake, absolute masters, and necessitates frequent reference of matters to them and a careful system of checking, to insure that their will will be obeyed. Checking and control, accordingly, which are the soul of safety—examination and inquiry, and the careful exclusion of risks—will have to be looked upon as the dominating features in the entire organisation—features which cannot be trenched upon with impunity. They may involve what is irksome and tedious. But trouble and patience are what members must not grudge to give, while seeking what they have not the money to buy. And, without them, there can under the circumstances not be safety. With them, in the words, once more, of M. M. Ferraris, one of their most active organizers, "it is inconceivable how a co-operative bank could go wrong." The entire system may therefore be described as one of mutual checking, bringing home what Sir Robert Morier has described as the second cardinal point among such in co-operative banking, namely, "a maximum of responsibility." In organising our system we have therefore the consideration of safety to place foremost. Now the first condition for securing

such—which is very well within our power, as being an elective organisation—is that of securing a trustworthy clientèle to deal with, out of which, at the same time, a well-qualified governing authority may be formed; for the customers are also the masters.

I take it that no co-operative bank should do business — so far as giving credit goes — with any but its own members. (As regards deposits, of course, its counters will be open to all the world.) The proposition has been contested, but as I am bound to contend, on untenable grounds. A false analogy has been drawn between our co-operative stores, which habitually deal with non-members, and co-operative banks. The analogy is, however, altogether misleading — let alone that it remains an open question whether co-operative stores really benefit themselves by dealing with strangers. The Swiss co-operative stores have recently deliberately adopted the principle of restricting sales to members, and they fare the better for it, in respect alike of membership and of business. But, however that may be, our stores do business with non-members for the sake, not of larger sales, but of attracting new recruits among the poor, who cannot at the outset commit themselves to the purchase of a share, but can manage to pay for the goods, which in any case they have to buy—the dividends due upon which eventually pay off the share. The co-operative banks dealing with strangers, on the other hand, do so merely for the sake of extending their business. Once more, our stores run no risk whatever in selling to strangers. They hand over their goods, and at once receive full money in return, and there is an end of the matter. The bank parts with its money and receives only a promise to pay, given under circumstances which, so its own careful selection of its members shows, must mean the introduction of an element of uncertainty.

It may be in point to insist at once that there is nothing more dangerous to a co-operative bank than running after busi-

should come to it, in order that it may make Only so can it fully secure itself. A big balance many managers delight to point to as a testi-n skill, is the most misleading of all evidences. is not to be obtained without being run after, be that there is no room for a co-operative here is no room for it, it ought not to be. at, for the bank's own protection, business en restricted to members, what, next, are those All authorities are agreed that the fate of the or failure, are absolutely bound up with, abso- upon, the quality of its members. "The best nk," once more to quote M. Luzzatti, "is the members." He attributes the remarkable success Italy to "the great reputation of honesty" which ive acquired. Dr. Crüger is no less emphatic. "To operative society depending upon self-help and the forts, it is necessary that a man should be r a moral aspect, in character and in his The bank must not beat the big drum, and nd any one to join, but carefully scrutinise xtreme care is not indeed called for in our shall find to be indispensable in the small still to be spoken of, in which one member r all the others. But there must be some- n, and, which means practically the same thing, after membership has been conferred, in order iorating in conduct or character, and thereby bank, may be promptly got rid of. For of ember is a possible borrower. That is why you sure at the outset that he may be trusted. He sible administrator. He is intended to be one of s of the bank. On all these grounds it is indis- t he should be trustworthy.

What has thus far been said ought to shown elective things, how absolutely faulty, from a co-operativle to deal is the easy transfer of shares allowed in some Ita governing banks, which has been already referred to. Tce also the able extent it undoes what has been accompl'

Now, to proceed a step further—the memhusiness — so are to govern the bank. It is of course own members. collectively to exercise any effective supervise open to all becomes at all large, except in particular c but as I am them by some deputed authority. They wil analogy has to delegate some of their powers, alike of s habitually course, of actual administration, to smaller ie analogy their behalf. However, in the last resort, quet remains ment must come before them collectively. Tlefit them- shown by the large body of members, the fewwe stores the General Meetings, the less good, certainly the stricting *primâ facie*, will the bank be. In fact, it may respect be amiss deliberately to *make* business for Gehat may employ legitimately artificial means for enlist sake, not est. For the general surveillance, as distinc the poor, and expert supervision, the active taking purchase of bank by all members is one of the mainich in any and such as no actuarial expertness or appleventually

The organisation of an administrative mach strangers, presents no serious difficulties. extending

There will, in the first place, of course, hahatever in body, which actually administers affairs, presidl at once and the counter, deals out money and recei matter. of effects and securities. That body, no mattese to in daily attendance in the office, or, as will bction banks, attend only at longer intervals, will of nent be small; for a large Committee would by its disqualified for such work. All the more will its dig to be limited, and will it have to be bound down

ministerial action, in accordance with fixed rules laid down previously by the members generally, or their selected representatives. On the other hand, the more expert this body is in banking business, in the better way will the affairs of the bank be conducted. In such distribution of duties the co-operative bank may be said *longo intervallo* to approach the organisation of the Bank of England, in which it is not the experts who govern, though their counsel must be of immense benefit, but a Board of plain business men, of good judgment, representative of the members, under whom the experts act only ministerially. The executive body will have, not to govern, but to administer.

It will be best to consider first what an administrative or executive body will be called upon to do as a dispenser of credit. Banking methods are innumerable. They will, in this connection, have to vary greatly according to the surroundings and the size of the bank. There are none in use in business banks which may not be—and indeed are not likely to have to be—adopted and employed also in co-operative banks. In small banks such methods will be of the simplest, scarcely rising much above the methods of loan societies. In large banks they become not only ambitious, but so richly varied, that the mere catalogue of them—as in the great banks of Milan and Cremona—is apt to bewilder non-bankers.

The root transaction of them all, of course, is the simple loan—the advance. The question at once arises: how is that to be adequately safeguarded?

The first safeguard to be adopted will have to be discrimination with respect both to borrower and loan. As regards the borrower, his election as a member of the bank, though useful as a preliminary test, is not sufficient. Also, the bank was not formed to practise lending for lending's sake. Its object is to provide credit *for certain approved transactions only*, transactions which promise to repay the outlay with interest, to improve the position of the borrower, and which are appropriate to his case.

There will, accordingly, have to be inquiry made under two heads: 1. is the object of the loan a proper object; and, 2. is the borrower the right person to pursue such an object and to carry out the transaction?

Inquiry with regard to the object of the loan and its prospect of success need not in this case be as searching as we shall find that it will necessarily have to be in small Village banks, which rest all their security to outsiders on unlimited liability. But inquiry of some sort there will have to be. That is of the essence of this kind of banking. At the very least, the general course of the member's business and mode of life will have to be watched. Should he transgress, the bank, which in this connection only lends for short terms and keeps its debtor well in hand, will be able to withhold a loan on the next occasion, or even to withdraw one already granted. But some additional *primâ facie* evidence, sufficient in the opinion of the governing body to warrant credit, it will be well to ask for. And that *primâ facie* evidence will in prudence have to extend also to the borrower's qualification for his intended enterprise.

To keep the bank true to its purpose, as a *People's* bank, and a co-operative bank, various authorities have laid down certain hard and fast rules, which do not of themselves fully meet the requirements of the case, but which have been here and there adopted as preliminary precautions. Thus it has been pretty frequently laid down that, in the event of conflicting claims, exceeding collectively in amount the cash available, the preference shall invariably be given to *small* business over large, to the £1 loan over the £100. A further argument, purely prudential, is pleaded on behalf of such practice. It is contended that over the wider area the same sum of money is distributed, in the smaller amounts it is divided, the safer will the collective business be. I cannot altogether subscribe to this as a general rule, since the small borrower may be individually the less trustworthy. Léon d'Andrimont, in the

People's bank founded by him at Liége, would not permit any one person to be allowed credit beyond 5000 francs in all. In his opinion, apart from the preferential consideration due to small business in a *People's* bank, people who require more would obtain better terms by going to some other establishment. Once more, I cannot subscribe. The co-operative bank is likely, under all circumstances, to be cheaper than an ordinary bank. And, although, of course, the particular object of a co-operative bank is to provide credit for those who could not otherwise obtain it readily and cheaply, that is, in the main, smaller folk, and to such work its managers' attention should be steadily directed, I cannot see why so very hard and fast a line should be drawn. We shall find presently, when we come to deal with Central banks, how difficult it is sometimes to make small business suffice for itself. To keep the bank self-supporting you must have a certain current of business. And, so long as it is not carried to excess, there seems no reason why some larger business should not be employed to carry the small more easily along. After all, the proper test is not the *magnitude* of the transaction, but its *character*.

No doubt, also, it is well to limit credits to individuals to a maximum sum. That is largely done, but on purely prudential grounds. And that is not quite what d'Andrimont meant. He meant to keep the bank "co-operative"—a *People's* bank—and to prevent competition with other banks.

Both the object and the borrower having been approved, and the amount possibly reduced, the bank will want still further to safeguard itself by insisting upon proper security. There is, no doubt, not a little credit business carried on in a number of co-operative banks without any security whatever being taken, except the borrower's simple promise to repay, and it is found a great convenience, and, so long as certain safeguards are observed, to result in little loss. However, it is by no means universal, or even general, and always involves

a certain amount of risk, such as a co-operative bank ought to make it its study to steer clear of, and should therefore not be adopted as a regular practice. A co-operative bank, deciding to lend on "character" only, ought to be sure of having the borrowers to whom it accords this privilege very well in hand and know them well. Even so, if it would avoid danger, it will have to restrict its lending upon "character" alone within fixed limits, to be drawn none too wide, say, a fixed portion of the reserve fund. No doubt, lending without security is convenient. But in a co-operative bank it is difficult to refuse to one man what is granted to another. And the particular business of the bank is, *inter alia*, to train people to habits of business. Therefore, even for mere training's sake, it may be advisable to insist upon security, even when such is not absolutely required. Such security should be personal. People readily give it, even where the practice is quite new to them, as we see in our little Self-help societies. And it helps to bring the co-operative idea, the idea of one man depending on the other, home to people. There is also this to be considered. A French proverb has it that nobody so misleadingly resembles an honest man as a rogue. Mistaking the one for the other, to the length of not requiring security, has landed co-operative banks in serious loss more than once. Therefore it is always safer to ask for security, and if it consist of sureties, to make sure that the persons named are also really willing to serve. A signature may easily be forged. The ostensible sureties ought in every case to be communicated with. Many German Share banks go so far as to ask in every case for an acceptance—among ourselves it would be a promissory note, which stands legally on the same footing—in which, as German law permits, the date is left blank, to be filled in as occasion may require, that is, whenever pressure has to be brought to bear upon the debtor to make him pay. This is to prevent the expense and trouble of renewals. German law is exceedingly

exacting with regard to acceptances. M. L. Durand has called it "draconic." Hence there is an unconquerable aversion to signing an acceptance to be met with among the rural population. But, among people more or less broken in to business, no objection is raised, and the acceptance, which offers many advantages, is very commonly in use. In Italy, where the law is less severe, and considerable facilities are offered for dealing with acceptances, the latter are even more common, among country folk as well as town. Among other facilities provided, it may be mentioned that rural postmen are authorised to receive, and to deliver and cash, bills on their regular rounds. One of the most valuable practical advantages attaching to the acceptance is, that in case of need it can be passed on to another bank, so as to make more money. And, if the status of the bank passing it on be good, its own signature will on re-discounting secure it a lower rate of interest, so that it stands to make a profit upon the transaction.

Another advantage attaching to the acceptance is this, that it almost authoritatively limits the time for which a loan is issued. Acceptances, to be serviceable for discount, must run for short periods only. And in Share banks, under any circumstances, it will be desirable to assign to each loan a short life. It may, of course, be renewed. A very common practice is to allow (where such course seems justified) nine renewals at three months each, on the understanding that one tenth of the principal will be paid off at each stage, which gives the borrower the use of the money, or part of it, for 2½ years. Loans have been allowed to run on for much longer. And, no doubt, there are instances in which that is not only justifiable, but laudable. (In any case, the acceptance keeps the debtor steadily in hand. It keeps him on his good behaviour, and obliges him to repay by instalments as required.) For, failing this, the renewal will be refused. A peculiar form of acceptance, favoured by some co-operative banks, and offering some advantages, is that issuable

under our "Bills of Exchange Act, 1882," which makes the amount repayable by instalments without renewal.

What has been said with regard to security applies to specific lending of amounts agreed upon for stated purposes, and leaves the credit value of the borrower himself completely out of account. However, some credit value every member is pretty sure to possess, and the bank will reasonably want to ascertain what it is. Up to that point it may, if it chooses, dispense with security, though I do not think that it should do so. On this point I take the orthodox German practice to be best, which is, to insist upon security in all cases and to accept the valuation here spoken of merely as a guide. In any case the bank will be the better for knowing what each man is presumably "good" for. It will be to the member's advantage as well. The managing authority of the bank, of which I shall have more to say, will, in all cases, have to be so composed as to be able, with or without further inquiry, to "value" its man. It ought to be as representative as possible, representative both of local districts and of various sections of members, in order to possess, or else to be able to collect, sufficient information about every member, who, so it will have to be remembered, cannot be said to be altogether unknown to the Committee, having been previously put up for election and had his qualifications inquired into. In some cases the bank will have additional sources of information open to it. In some Italian banks, which, according to the custom of the country, collect the taxes for the Government, the information obtained in the exercise of such duty proves most valuable. However, that applies to Italy only, and is not what one would wish to see extended elsewhere.

In any case, there will have to be some authority—whether, as in small banks, the general Committee, or, in larger, some specially appointed body, as in Italy the *comitato di sconto*, and in Germany the *Einschätzungscommission*—which can, in strict

privacy, appraise each member for his capacity for credit, and embody the results of its inquiry in a register, to be at the disposal of the responsible executive officers, but otherwise kept strictly private. In that book—*castelletto* or else *Creditliste*—each member should have what is considered a *safe* value placed against his name, up to which, under whatever form it be, he may at any time claim credit. It does not necessarily follow that the member himself is made aware of the value placed upon him. For all that, the amount will be at his disposal, and he will be able to combine with others, as sometimes happens, to obtain upon the two or three or more signatures proportionately larger credit. Where this is done, A, B, C, D and E, being severally appraised at £100, £200, £300, £400 and £500, may by their collective security authorise one of their number to receive £1500 in credit.

It need hardly be explained that the valuation obtained in this way will have to be carefully revised at regular intervals, by the same authority, and also in specific cases, in the event of anything becoming known which may affect it.

That is not enough. In well-organised banks, having a wide connection, a register of past transactions is also kept, in which every member has his own folio, so that his past conduct may be inquired into in all essential particulars. And another register —kept, in Italy, sometimes by a special committee known as the *comitato dei rischi*—records all that is known of the conduct of past sureties, whether members of the bank or not. There is therefore considerable material for information at the bank's disposal. And modern methods of keeping records make such information very readily available and handy, by means of special boxes, card catalogues, etc.

Should any member require more credit than is put down to his name in the *castelletto*, he may of course obtain it, provided that there is money in the bank; but that will be subject to further inquiry and further security. Up to his valuation, the

manager is usually authorised to allow credit on his own authority. Beyond that figure he will have to consult the Committee.

Simple as this matter seems, there are one or two points which call for special remark. We will suppose for the moment —the matter will be further explained—that there are two bodies to administer the bank: an executive, and a deliberating and controlling authority. Now the question arises: are members of those two bodies to be entitled to credit or not? They should be the salt of the society, or they would not occupy their several positions. Therefore *primâ facie* they may be held entitled to credit, possibly more so than any one else. But, on the other hand, the temptation to take undue advantage of their position is also great. If they will only agree among themselves, there is any amount of room for mutual back-scratching. As a matter of fact, wherever a bank has suffered serious loss—in Germany, at any rate—the cause has generally been, that one or other of one of the Committees has been trusted with excessive credit—credit running, in some notorious cases, into very long figures. Some banks, accordingly, will not allow their managers or committeemen to borrow at all. But that seems hard measure indeed, and may injure the bank itself, since it may prevent some of the ablest men from serving where their services are particularly wanted, but will involve a disqualification. An alternative course has been discovered, consisting in the appointment of a separate appraising committee for these privileged people. However, even so, all danger is not excluded. For such distinct Committees have, by extreme complaisance, been known to value their men in a rough and ready, purely formal, way, by putting down the same figure (a liberal one) for every one. This is a point on which, but for the outside control still to be spoken of, the mechanical rules of the bank itself might prove scarcely adequate. It is, indeed, to be presumed that, in the majority of cases at any rate, co-operative practice will have awakened and quickened "co-operative spirit" to a sufficient degree to prevent abuse.

Nevertheless it is always well that, as on the occasion when Spurgeon's famous allocution was delivered, there should be "a plain-clothes policeman" present, as well as "the all-seeing eye." And for this purpose, among others, co-operative banks have long since, of their own accord, introduced the special inspection still to be spoken of, which in Germany and Austria the law now makes compulsory, and which, where properly conducted, answers its purpose very well.

So much for what may be called the natural "value" of the member as borrower, the value coming into account when any specific advance is asked for, say across the counter, or also in the shape of a "cash credit," or "overdraft," to be used in "current account"—which last-named method of transacting business is rightly becoming more and more popular and general, and has of late even penetrated into rural co-operative banking. Wherever there is frequent recourse to a bank's services it is out and out the best method to employ. For it is advantageous no less to the bank than to the member. It keeps unemployed balances in the bank to be otherwise dealt with, and secures the bank much active business, which is what brings it profit. For "current accounts" which remain "dead" are either not renewed, or else are summarily withdrawn, while still running, as arguing abuse. At the same time current accounts give the bank a great deal of welcome insight into customers' business, which is invaluable, more particularly in a co-operative institution, a body always, in a greater measure than another bank, dependent upon its knowledge of its members' doings, and upon its knowing that the credits which it grants are employed for legitimate purposes. It is invaluable, on the other hand, to the borrower, because it places an adequate amount of money at his disposal at any time, for only so much of which will he be charged interest, as he actually draws out, and only for the period during which he has the use of it. Such accounts are in Germany generally secured by an undated bill, to be used against

the debtor in case of need; and in the ordinary course of things they run on for a twelvemonth at a time, though they are withdrawable at pleasure on sufficient cause being shown. They are readily renewed from twelvemonth to twelvemonth.

But I have still to deal with the subject of security to be taken *beyond* the *castelletto* value of a member, which does not always suffice him. Evidently, if the member pledges something apart from his ascertained degree of personal security, say, effects, or real property, or an approved claim against any one else—or if he bring an approved acceptance for discount—he may with safety be trusted with a corresponding credit or discount, every pledge being estimated at its own value. In that case each advance stands upon its own merits.

But there is one thing which ought not to be taken in pledge, though, as a matter of fact, it not unfrequently is, more particularly in Italy, and that is the member's share. It is not at all unusual to allow a member to borrow up to the value of his share, or even beyond, his acceptance as a member on the ground of good character being taken to stand for additional value. In truth the share has no pledgeable value whatever, least of all to the bank, to which it represents value only while it is in somebody else's hands. Taking back the share, which the bank potentially does by accepting it as a pledge, must mean to it a weakening of its own position. Even outside the bank the share is devoid of pledgeable value, since it cannot be transferred without the bank's approval. The more fully and clearly what has already been pointed out is realised, namely that what is called a "share" is not in reality a share at all, but a receipt for a contribution made to a common fund, the less danger will there be of this very questionable value being accepted as a pledge.

Another kind of pledge, only in a lesser degree undesirable for a co-operative bank, but nevertheless not rarely accepted, is real property, be it land, or be it a building. It seems diffi-

cult to make old-fashioned people understand that a mortgage, which has long ranked in popular estimation as an ideal security, is open to a good deal of exception from a banking point of view. However, in a co-operative bank, of all institutions, which operates with comparatively small funds, it most undoubtedly is so. Unquestionably mortgage-credit may be provided by co-operative means. The German *Landschaften* are at bottom co-operative. The *Landwirthschäftliche Creditgenossenschaft* of Saxony has carried the same kind of mortgage-credit very much further, democratising it, with good results. And there are other similar institutions, of which I shall still have to speak. Accordingly, co-operation has shown that it is perfectly capable of providing serviceable mortgage-credit. However, wherever this is done, special precautions are taken to secure money for long periods. For an ordinary co-operative bank, such as we are here contemplating, mortgage-credit would lock up money for so long a time that it must mean danger or mischief. Co-operative banks have in fact come to grief through lending on excellent mortgage security. The secret of the success of a co-operative Share bank is, as M. Ettore Levi has well explained, "a perpetually mobilised portfolio," that is, a collection of acceptances which may be readily reconverted into money. Apart from that, in these modern days, real property is subject to depreciation, as our Building Societies well know. I will not suppose that many co-operative bank committees will be unwise enough to lend upon such questionable real security as, to their loss, some German credit societies have accepted, namely, in one case a theatre, which upon foreclosure the bank did not know what to do with, and in another a water mill, which was bodily washed away by the flood and so disappeared. But some Italian co-operative banks have lost heavily by depreciation of land pledged to them, to the point of finding their position seriously imperilled.

There are other things which are not ideal security, but which

are nevertheless taken, to oblige members. Lending upon the security of goods, live stock, implements, machinery, dock warrants, and the like has become very popular abroad, and wherever the law allows chattels to be pledged while remaining in the borrower's possession and use — by what is abroad termed *gage sans dessaisissement* — this is possible and useful, just because it inconveniences no one by the articles pledged being put under lock and key. In the United Kingdom that would be practicable only subject to a bill of sale, which is an undesirable instrument both to give and to hold, inasmuch as it involves unpleasant publicity. Nor is it likely that the practice will ever gain much of a footing in the United Kingdom. Elsewhere, however, and more particularly in Italy, it is found exceedingly convenient and useful, and is carried very far. Thus raw material is taken in pledge, down to cocoons, which the poor Bergamasco spinner pledges while working them into silk. A builder, having his men to pay, may borrow on the certificate of the person for whom he is building, a printer on a certificate from the publisher showing a good account to be maturing. Humble folk have humble needs; "little things are great to little men;" and this small help so given may prove an Archimedean *ποῦ στῶ*, the first step in a rise to a very much better position. Unconventional as such pledges may be from our point of view, in Italy, where they are common, the losses occurring in connection with them are trifling. However, in all these cases it is really the personal security which stands first, that is, the approved character of the selected member; the pledge is, in a manner, only collateral. It is for the Committee of the bank to consider in each case whether or not it can assent to the transaction. There is never an obligation admitted on its part.

The pledging of effects and commercial or banking documents offers much less difficulty.

Such being the bank's active credit business, it will be for us next to inquire by what organs it is carried out.

The executive functions of the administrative Committee already referred to cannot, in every case, be kept wholly distinct from the deliberative functions entrusted to the controlling body. There will be occasions in which especial caution and consideration become indispensable, in which the two functions may have to be blended. In the main, however, the two are rightly kept distinct, more particularly in Germany, which in respect of large development takes the lead in this movement. Varied as the organisation may be under this aspect in different banks, there is one principle common to them all as a foundation for all work of management. That ruling principle is, as observed, the maximum of mutual checking already insisted upon, so as by vigilance to keep out danger. There must not be any act committed which there is not some competent and representative body appointed to check. That is, once more, giving in work what cannot under the circumstances be given in money by capital found and expert service hired.

This principle may be traced through the entire structure of the organisation. Thus the office of the body elected by the General Meeting, the *consiglio* or "Council of Supervision," is to control the managers, to decide difficult questions for them, to sanction, or else disallow, what they may have done. In Germany such office is plainly indicated by the name given to the body: *Aufsichtsrath*, that is, "Council of Supervision." To perform its appointed work it is required to meet at stated intervals, as often as may be necessary, and pass in review all that has been done by the *Vorstand*, that is, the executive officers. The latter are of course required to be members of the society, but they are selected—from outside, if need be—on the ground of their expert efficiency, and are salaried. Schulze did not believe in purely honorary work. His maxim was that a labourer is worthy of his hire, and, accordingly, on principle he allowed adequate remuneration for every service. Under the same scriptural rule, the members of the Committee

likewise, generally speaking, receive fees for attendance, or some other small remuneration. The executive officers may be paid by salary and commission. They are three in number, each having distinct duties assigned to him, but qualified to replace his colleagues at times. Documents issued by these officers in every case require at least two signatures, so that there is always one member to check another, even at the outset. The annual leave, to which of course each of these officers is entitled, is often taken advantage of for adding another check. With that object in view, leave is in some banks made obligatory on the officers. During their absence their duties are temporarily discharged by some other members of the bank, who by such means obtain a certain amount of insight into, and familiarity with, the work ordinarily done by each officer. That is no doubt to some extent a check upon carelessness or malpractices. The three several offices are those of Director (managing director), Cashier and Comptroller, though they are sometimes differently designated. These three men form collectively the Executive Committee. They direct the business, with a staff of clerks under them proportioned to the requirements of the bank, grant loans according to the *Creditliste*, or the value offered as pledge, deal with surplus money, and are, for all these things, responsible to the *Aufsichtsrath* or "Council." The *Aufsichtsrath* consists in Germany of an indefinite number of members of the bank, generally speaking from three to fifteen, elected as a rule for three years, with a third retiring at the close of every year. The ideal qualifications for these men, are, that they should have a sound judgment in business matters, with a pronounced leaning to caution, and know as much as possible personally about the members of the bank, or of that portion of them in respect of which they are elected, so as to be in a position to exercise the discretion which has necessarily to be left to a governing body. It will be either this Council, or else a distinct Committee appointed by it, which will draw up the *Creditliste*, fixing an

allowable credit for every member. The Council is, in very truth, the authority responsible for the management of the bank and endowed, accordingly, with plenary powers. It does not itself appoint the executive officers, but proposes them to the General Meeting for election after inquiry. However, it has power to dismiss them. The executive officers are responsible to it for all their acts, and it is free to make a searching inquiry into the affairs of the bank, books, cash-boxes, etc. at any time. To assist it in such work it frequently employs expert accountants, to whom it may delegate part of its powers. One is bound to be thankful at seeing this feature, which Schulze-Delitzsch himself first suggested some decades ago, becoming more popular in the larger banks. For the work of the Council has, in truth, in many instances, become too voluminous for them to do justice to. (Accordingly, in practice, the good management of the bank depends in a very great degree upon the three executive officers, who may, indeed, be said to have generally proved their efficiency as an institution during a long period of existence of the banks.) Nevertheless, in some cases at least, one would wish to see the supervising efficiency strengthened. Wherever there is a weak point, it is traceable to a want of such. It was for this reason that Schulze, when acting as one of the Council in his own particular bank, made his willingness to stand for re-election dependent upon the engagement of a proficient helper. However, it is not for "help" only that such assistance is required. The mechanical and expert part of the Council's business, the auditing, and reckoning up of figures, and seeing that all is kept ship-shape, are sure to be very much better done by a trained man of this particular business than by the Council. The Council's proper work really begins only after that is done, when it comes to be considered whether the Committee have properly carried out the resolutions of the General Meeting, have made a right use of their discretion in the apportionment of credits, in renewals, investments and

otherwise. For such purposes, it is rather acquaintance with local circumstances, and a general understanding of business, than expert knowledge that are required. In any case the Council is to overhaul the executive officers' accounts and balance sheets, as a rule once a month—or oftener, if occasion should seem to require—which means not only auditing, but inquiring into everything, and satisfying itself that the law and the bank's rules have been complied with. And it presents a separate annual report to the General Meeting, in addition to that which the *Vorstand* prepares. For certain purposes, such as the employment of money, the extension of a member's appraisement, the appointment of employees, the consideration of certain office matters, the renting of offices, etc. etc., in respect of which the *Vorstand* may hold its own powers to be insufficient, or desire to assure itself beforehand of the approval of the Council, it is entitled to ask for joint sittings of the two bodies, at which such matters are conjointly discussed and disposed of, the Council thereby covering the *Vorstand* with its authority. Here seems ample control provided, which should leave nothing unverified.

The body inside the bank to check the "Council of Supervision" is the General Meeting of members, in which supreme power is invariably vested. Unfortunately, in Share banks it is found that, just as in joint stock companies—unless anything should happen to go wrong—General Meetings are not very numerously attended, and little active interest is shown. There is no doubt a source of possible danger to a co-operative bank in this. In large societies such a state of things has in some rare cases brought about this additional drawback, that the employees of the bank, being members and always present, bulk very large in the meeting, and may at elections vote for persons on the ground, not of their qualification but of their acceptableness to the staff. I know of, at any rate, one such case in Italy.

On all grounds, then, it may be considered a good thing that,

in addition to such control exercised in the bank, the additional provision is laid down to which reference had already been made. However, let us first glance briefly at the organization of banks in other contries.

In Italy the governing body of a co-operative bank is the *consiglio d'amministrazione*, a body of unsalaried elected members, varying in number, according to the requirements of the bank, from about 14 to over 100, including deputies. It appoints the officers who practically administer the Bank, and who in some cases are numerous. There is always a President and a Director, as well as a Secrètary. There may be a Vice-president. And there are other officers. However, none of these additional officers draw any salary. The authors of the Italian system considered that services of the kind required should be given gratuitously, as a freewill offering in an altruistic cause. There is certainly no lack of devotion and willing service for want of payment.

The historian, and for a long time the Manager, of the great "Banca Popolare" of Milan, M. Felix Mangili, thus sums up the elements of success in his own particular bank, which he would have made general in all co-operative banks: "The gratuitous rendering of services, the non-limitation of share capital, the smallness of the payments exacted, and allowed to be paid by instalments, the restriction of each member to one vote, the distribution of business over a large number of transactions, the extension of confidence to every member who shows himself deserving of it, the preference given to cheap credit over profit, and the avoidance of anything that involves risk." *

A peculiar feature of the Italian system is, that there are five *sindaci* (three effective and two *supplenti*, or deputies), that is, unsalaried officers elected by the *consiglio* out of its own number,

* "La gratuità delle cariche, il capitale illimitato, le quote di tenue importo pagabili anche con versamenti a piccole rate, l'unicità del voto, il frazionamento delle operazioni, l'elargizione del fido a chi fra i soci si ne mostri veramente meritevole, il credito anteposto agli utili, e l'esclusione d'ogni operazione aleatoria."

one of whom is expected to be present on all office-days and supervise all business done, except such as is of a mere routine character. Practically not a lira may be paid, nor a liability entered into, without his express sanction. His signature is required for every document issued by the bank. By this means the administrative staff are kept under the constant supervision of the elective governing body. The *sindaci*, corresponding in a manner to the German *Aufsichtsrath*, present, like that body, a separate report to the General Meeting every year. Their office being particularly burdensome, they are as a rule let off any further service at the close of their term, if they choose to take advantage of this provision.

The Belgian system, originally exactly copied from the German, is similar to the Italian. On the whole it asks for unremunerated services. There are two officers (besides the staff) salaried, namely the Manager *(gérant)* and the Cashier. The responsible officers entrusted with the management are the President (unsalaried), the *gérant* and one member of the *conseil* or Committee, elected for such service, like the Italian *sindaci*, at the annual meeting. The question of credits is entrusted to the *conseil*, which meets frequently and controls and checks, employing in many cases an expert accountant or banker, with absolute freedom of inquiry, to inspect and examine books and cash balances. And the more he inquires and inspects, the better are the members satisfied. The sum and substance of it all is, that in every accepted system of banking the executive authority is carefully checked, perhaps not always quite as minutely as was intended, but nevertheless sufficiently for the purpose; that there is a gradation of inspection and supervision, machinery being spread out and subdivided as occasion may require. In a small bank one small Committee or Board, with a single manager, may suffice. In a large bank there is a perfect army of clerks, and there are four or five Committees or more. Whether the apparatus be large or small, there is representative government, and responsibility

brought home at every point. Nothing is left £. *s. d.*, were
inquiry. And there is some one answerable for t be altogether

The Italian banks have an institution quite ore particularly
selves, and not really making for control and share in the
here my special subject, but for peace. It is t n, their money
is, three men exercising summary jurisdiction personally for
General Meeting, to act as arbitrators and co e, if there is a
case of dispute that may occur. Whatever t annot, for some
before them may be, their judgment is final. S attention which
contentions come into play, no doubt the inst join at all, but
allowed to be useful. But it seems doubtful w with a deposit
questions as the admission of an applicant to e will incur no
the refusal to grant a credit, a right of rehearin ixed by himself.
over the responsible Council is wisely allowed to atter of course
body like the *probiviri*. ommon rule be

It remains to be shown how a co-operative ban bility would lose
tend its operations over a wider area. In wha worthless. The
it has been assumed that there is a bank work whole interest.
be it town or be it country, which it can ce Once he divides
from one centre. There are very considerable case a cipher. *
with a farming clientèle, as well as towns or ci specifically as it
But how is a bank to do, when its district becor ink, disposed of,
for such treatment? It is no answer to say th n is made for the
the wider circle alone, and allow independent ba will at the same
it of their own accord; because, as likely as not, i lity is, under the
could not be started there, and therefore very use what are the ad-
work would have to be left undone. It is
easier to extend an organisation already existin *iembers*, which is
a new one on untried soil. reater importance

And, just like any similar institution, a co-op ation. For Share
very well spread out its work over a wider ent by capital, and
branches or outposts, provided that the prope n respect of any
service can be found. Wherever a branch give a specific guarantee
size, and is found to have sufficient stamina o

ently, it may afterwards be made independent. ifficulty raised in such cases. It is not a co- business to oppose such moves. Its interest is t that of all its members indifferently. In Italy, so y resenting emancipation, parent banks have been encourage it and support the offspring institutions he main points to be kept in view are, that represen- nsibility must not be weakened, and that the col- members have one administering authority only d call to account, whatever may be done locally ience of local members. Whatever be the number stations, the management must remain centralised. chulze-Delitzsch bank of Gotha has over fifty h with a little local Committee of its own. The 's functions are purely advisory. Its members s to perform collectively. But, upon any applica- being made from their district to the head office, ted severally. A printed inquiry form is sent al committee-man. He writes down his answers f his colleagues, and the whole transaction is rict privacy. The bank is not bound by the it receives. It may have other sources of in- to it. But the opinions are a great help, and ittee are available for watching the debtor and im. The members receive a trifling commission. perative bank of Augsburg, the work of which t mainly agricultural, does the co-operative hole province of Upper Bavaria. To accomplish about 250 "agencies" within its district, allowing ommission, quite sufficient to act as a stimulus secure them, if active, a remuneration worth nt collects applications, takes money, supplies so on. But, by his side, the bank has a "man tationed in every district, whose name is not

one of supervise character. entered in for every administra- the electi manner to separate r being pa further se advantag

The Be is similar t services. the Manag entrusted the *gérant* for such s The questi frequently an expert a to inspect he inquires (The sum system of t perhaps no nevertheless of inspectio subdivided Committee c large bank t or five Com or small, the

disclosed, and who supplies it with indepenc
advice. He is generally a man of local pos
mark him out as trustworthy. However, in all m
actual decision rests with the Central Comm
this arrangement has thus far answered.

In Italy it is usual to allow to every *su*
officers—a *direttore* and a *cassiere*—and also loc
acting on the Committee, which is one for
are also profits and losses of the bank as a wl
in fact acts as one, with collective powers an

I think it will have to be admitted that in t
reviewed—which are at bottom only one, as Lé
we have very ample security provided that the
to the bank, whether it be share capital, depo
loans, will not be lightly dealt with, or placed
the side of ordinary capitalist banking the
appear a little complicated, and, it may be, tir
is of necessity involved in its being co-operati
deal with a class of customers, for a very co
of whom, at any rate, banking facilities of an
supposed to be out of the question. The prc
some banking system which will meet their cas
ing security. Money security being scarce, the
together to secure for themselves a valuable
obtained without co-operation, will naturally h
to give in personal service, in personal superv
and control, and, inversely, in submission to r
inquiry, what they cannot give in money valu
is too poor to travel by coach or rail m
walk on foot, though it tires him a great de
his shoes, and takes much more time. That
of the member of a co-operative bank. His
in many cases too small to pay a capitalist
ingly, he must pay in grist what he takes

£. s. d., were
t be altogether
re particularly
share in the
n, their money
personally for
, if there is a
nnot, for some
attention which
join at all, but
with a deposit
e will incur no
ixed by himself.
atter of course
ommon rule be
bility would lose
worthless. The
whole interest.
Once he divides
case a cipher. *
specifically as it
nk, disposed of,
n is made for the
will at the same
lity is, under the
what are the ad-
embers, which is
eater importance
ation. For Share
nt by capital, and
n respect of any
ive a specific guarantee

ently, it ciple in the whole matter is strict checking, one of difficulty morselessly brought home. Without such the supervise; busineld be impracticable, and the application of the charactert that of ciple to banking would be illusory.

entered iry resenty of the safeguards provided by the system, as for every encouarly sixty years' experience, is very conclusively administrhe maircellent results obtained, under searching statistical the electionsibili some thousands of banks—in not a few of which manner t membilly observed. Even so, the losses have proved separate d call d such as have occured are in all cases traceable being pience of neglect. If co-operative banks will only adhere further sstations system, and use such safeguards as are within advantagchulze-i Ferraris' statement is bound to be verified, and

The Bth withoperative banks, or heavy losses by them, must is similar e's funble. Under the circumstances it is not astonish-services. s to pefer the co-operative banking system has become the Manabeing co-operative banks are freely trusted with entrusted ted sey, which, for the benefit of the community, they the *géran*al condistribute for self-repaying productive work all for such of his to return to them safe and sound, with increase.

The questrict pr
frequently it rece
an expert to it.
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(The subperati
system of ct mai
perhaps nwhole p
neverthelesabout 2
of inspectiommis
subdivided, secur
Committee ent col
large bank so on.
or five Cotatione
or small, th

CHAPTER V

UNLIMITED LIABILITY BANKS

THERE are districts and there are populations attention which
among whom, co-operative banking by means o join at all, but
is not, or else is scarcely, possible. And those with a deposit
the districts and populations amid which the as e will incur no
rendered by co-operative banking is probably partic ixed by himself.
Working capital is wanted. And for want of it atter of course
allotment, the little homestead, the country work common rule be
and opportunities must be allowed to run to wa bility would lose
in such places shares are out of the question. For r worthless. The
and to ask for even a small sum down, to pay fo s whole interest.
mean to deter people, desiring to be members, Once he divides
of a condition which it is impossible for them t case a cipher. *
same time also, amid such surroundings, busines specifically as it
developed, accounts, promissory notes and similar ink, disposed of,
formalities of banking are not understood, and, n is made for the
dreaded. But there is, generally, at any rate pc will at the same
a disposition and willingness in the simplicity o lity is, under the
do what is right. And there is also generally what are the ad-
habitation, more mutual touch and knowledge
than can be found in the populations sufficientl *embers,* which is
conversant with the use of money to provide eater importance
Share banks. In such districts, wherever circur ation. For Share
vourable, an unlimited liability bank may be fo nt by capital, and
prospect of success. I have called it a bank n respect of any
of it as a village credit society would give a give a specific guarantee
nature. For its characteristic feature is humilit

ently,
one of ifficsays that it is the "humbleness" of these institu-
supervise; bu with the spirit of mutual kindness which they
character thich constitutes their chief attraction. You cannot
entered iny restitutions on an individually large scale. Nobody
for every end such an idea. The bank is to be a *poor* man's
administr he m in a circumscribed area. Its essence is mutual
the electonsibdge and observation, brought about naturally by
manner t memed and preserved without any effort, or anything
separate id cale offence. Among the humble people here kept
being Pience appropriate credit society, all that is severe about
further sstatios becomes obscured by a sense of familiar rela-
advantaschulzesolidarity," which in many cases it would scarcely
The B h wieration to term brotherhood. Neighbours, even
is similare's ffering in station, are brought to realise that they
services. s to terests in common, and rich and poor, accordingly,
the Man beingands for common work in the common little parish.
entrusted ted sit needs of this humble clientèle are, generally
the *gérar*cal coore modest than in the other case, and their ob-
for such of his ratively few, and such as every one in the locality
The quesrict I and appreciate. The bank, in fact, in its humil-
frequently it re to bring help where similar help could not by
an expert to itis be given — for there is no charity in our plan,
to inspecittee oting philanthropy no doubt plays its part in it.
he inquirim. intended to penetrate into the most forsaken and
The suoperat and corners of human economy, and there to
system of t mawhile at the same time filling pockets. It would
perhaps whole only very partial justice to measure the benefits,
neverthelebout come the channels, by mere money value. Such
of inspectommisse, in each single case small, though it becomes
subdivided secut; and it is brought into action where, perhaps,
Committeent co, the outlay and the sphere of operations, it
large bank so onest amount of social good, and probably, in view
or five Ctations, of material value as well. Also the philanthropy
or small, t service is of the purest, inasmuch as it is careful

not to demoralise but to elevate. It does not g £. s. d., were
Archbishop Sumner's principle,* (it merely help t be altogether
to help themselves. Once it degenerates into giv re particularly
ately loses all its value and hopelessly spoils share in the
The last thing that it is called upon to do is to t n, their money
out of the rich man's purse and put them into t personally for
The task set to it is to create new values.) , if there is a

My object here is, however, not to show fort nnot, for some
this particular banking system, but to explain h attention which
for the security of money entrusted to it. join at all, but

(The fundamental principle brought into play is with a deposit
same as in Share banks, only it is differently ap e will incur no
sibility, quickened and divided down to units, vig ixed by himself.
the strict holding of people to their duties, are, atter of course
alike, made to some extent to take the place c ommon rule be
sessions, and, in the banks now to be discussed, ir bility would lose
degree than in those already spoken of, just t worthless. The
less tangible wealth.) s whole interest.

Shares being, for many of the people to be Once he divides
the question, and, wherever an adverse law has case a cipher.*
posed them, advisedly fixed at so small a figure specifically as it
sent scarcely any value, the only other form o ink, disposed of,
able, according to M. Paul Leroy-Beaulieu's so n is made for the
is, unlimited liability, to be pledged "up to the will at the same
ity of one for all and all for one is what the lity is, under the
has to fall back upon. what are the ad-

Shares are held to be inadmissible on princi
would form a barrier to admission. And the *members*, which is
author of the scheme distinctly was that not eater importance
person was to be turned back. In all probab ation. For Share
he who would need the bank's help most. ent by capital, and
have some opportunity or other for turning in respect of any

* "The only true secret of assisting the poor is to make th give a specific guarantee
their own condition."—*Records of Creation.*

ance, to good account, if he can but obtain the
n; and, if he can find people to vouch for his
opportunity he is not to be made to lose. In a
his seizing it may possibly prove of greater benefit
ce heavy profit which another man may gain in
ture. It may start our man once more on an
instead of forcing him down permanently and
the Slough of Despond. For the same reason
question whether entrance fees should be permitted
are useful, no doubt, as supplying money for
s, and they have a tendency to keep members
However, Raiffeisen, who first devised this system
did not like them, just because after all they
ax, though it be only a small one. Shares he
upon him by an unkind legislature, which under
k's guidance could not understand the *ex nihilo*
scheme. But, in self-defence, he made them as
would tolerate. In Italy, where in a solitary
l judge gave a German interpretation to the
ruled shares to be indispensable, rather than
n before a higher tribunal, the little Village bank
ing—but fixed the value of the share at one penny.
llage banks have been known to go down even
fix the value at a halfpenny, and even at half
a rule, however, in Germany shares are larger,
6*d*., and in Austria they reach a higher figure
or more. But, in the best case, they are only
ce under the law and the rules every member
one share, the amount raised by this means
be considerable. In fact, in this connection,
at all to be taken into account as a source of

tly show that, even so, in the matter of cash
not wholly powerless, that even without shares

we may, sooner or later, place ourselves in a pc £. s. d., were
some substantial metallic guarantee. t be altogether

But first, it may be asked: what is the unlimited lre particularly
substituted for the "small capital of guarantee, share in the
security under the circumstances here suppose, their money
Provided that there is some one more or less w personally for
take his place among the poorer members, the prob, if there is a
comes much simplified. For this man, whose pronnot, for some
exceeds by a good deal the value of all the money attention which
likely at any time to require and to borrow, cov join at all, but
as with a shield of inexhaustible solvency by n with a deposit
bility which pledges him up to his last farthing will incur no
course, a material advantage secured by unlimitixed by himself.
the poorer members. The depositor or lendatter of course
saved all the trouble of inquiry. He knows thacommon rule be
he has a sufficient bondsman on the other bility would lose
wealthy man, incurring such liability with his e worthless. The
may be assumed to join the bank with the s whole interest.
rendering it such service, giving his guarante Once he divides
bilities. We shall see how, in his turn, he pr case a cipher. *

However, there may be a bank of this sort specifically as it
it who can at all be called wealthy. There arink, disposed of,
may be a poor parson—in Germany countn is made for the
generally poor, and in Italy equally so—to ac will at the same
of the bank. In one, I found such "Crœsulity is, under the
enough to be able to make himself responsiblwhat are the ad-
£25 share in the Central bank to be taken u
(and paid up to the extent of one half), which*members*, which is
credit wanted. Or else there may be nobodyeater importance

* Similar service may be rendered by a wealthy manation. For Share
given to an agricultural syndicate at Aiserey, near Dijon, lnt by capital, and
handed over bonds to the syndicate to pledge with a bank in respect of any
himself by the right of inspection and a first claim on asse
vious reasons, this is a less perfect form of rendering hegive a specific guarantee
common venture.

one of being all united in one bond, staking every one
supervise as a common security to whosoever may have a
character says ent *some* value, which good business and good
entered i with, in course of time, render more effective. It is a
for every this matter to look at the mere money value of
administr stitutits' possessions.
the elec true that if, in a credit society composed only of
manner in you resort to the *ultima ratio* and have them all
separate dge are not likely to recover much. However, nobody
being ned the necessity of selling up; there are other safe-
further sta which have proved quite sufficient. A much
advanta guarantee than the money value pledged is this,
The these men will want to be sold up, and every one
is simila accordingly, under the conditions prevailing, strain
services. prevent such a contingency. He does not stand alone
the Man ing. He is linked together with his neighbours.
entruste o loss must mean disgrace to himself and an
the *géra* fe.) For these people are his little world. They
for such bservant, mute, inanimate neighbours. They have
The quest by their own interest, and a voice which under
frequentl y become menacing. They have even more
an exper ns than these at their disposal. And, if any one
to inspe hem false, or neglect the duty which he owes to
he inqui be found very willing to use them. Moreover,
(The s may be expected to require the services of the
system o he is not likely to spoil his own market. And,
perhaps e little bank, unless badly managed, is pretty
neverthel ove its position as time goes on, by means
of inspec be explained.
subdivide may be readily granted that the membership of
Committe people with sufficient property to answer *primâ*
large ban k by themselves alone, is no doubt a substan-
or five not merely by the outward show of solvency
or small, y imparts. The wealthier men are likely to

bring more to the common stock that is valuable
besides their money guarantee. They are likel
experience, knowledge of the world, knowledge
judgment, influence with others. They may, accordi
useful guides to the little society in the manag
business and in the prosecution of its educational
are quite as precious, quite as valued a boon to
services. And they may promote the social
institution, as important in the view of its meml
the others, namely, that of drawing classes toget
village world, producing community of feeling, a
of common interests, and mutual good will. In s
even, their presence may be found useful as
tracting poor people, who require credit badly, t
of the bank which, left to themselves, they
approach. There is an old prejudice against
which they are influenced. They have so long
look upon credit, not as the valuable productiv
the solvent man—who can claim it just because
but as the last despairing resource of the ruine
upon going to the bank to ask for an advan
"disgrace," an ostensible proof of serious strait
men of known wealth have more than once us
as bell-wethers to set the example. After they
ice, their poorer neighbours were found to p
for the dreaded plunge.

It may be as well, after having laid stress
tage of having wealthier men in the bank, ple
one else, their own unlimited liability—whi
necessary; for nothing else will answer the pu
to go on to explain in what way such wealthi
protect their own interest, and make the u
harmless to themselves—apart from the gene
to be spoken of, which are adopted to ens

£. *s.* *d.*, were
t be altogether
re particularly
share in the
n, their money
personally for
, if there is a
nnot, for some
attention which
join at all, but
with a deposit
e will incur no
fixed by himself.
natter of course
common rule be
bility would lose
worthless. The
s whole interest.
Once he divides
case a cipher. *
specifically as it
ink, disposed of,
n is made for the
will at the same
lity is, under the
what are the ad-
nembers, which is
reater importance
ation. For Share
ent by capital, and
in respect of any
give a specific guarantee

one of repayment by the borrower, and therefore to protect
supervis erally.
charact says his things, the members of the bank may themselves
entered with limit the use to which unlimited liability is to be
for each true very commonly done. And the wealthier men,
administ probably suffer most in the event of a loss, have
the elec square seeing it done. The General Meeting—whose
manner in the ot be modified except by another General Meet-
separate who fix maximum figures, not to be exceeded
being gener guar the one in respect of credit for any one person,
further st these respect of collective business. That is one safe-
advantach accord sing that the bank pledges all its members' pos-

The prevent outside world, but within its own organisation
is simila seeking. that no one is to have more than £15, and that
services loss t not exceed £200—or whatever the figures may
the Ma limitation of liability which effectually protects
entrusted observat, supposing that the Committee were to grant
the gener by such figures, not only would they become per-
for such by become for the excess, but they could also be made
The queries than ies within the bank and before a court of law.
frequent it seem false that is to be a safeguard, those who pledge their
an expe to be foun st be able at any time to ascertain that the rule
to inspe it may be dequate provision is made for this. We shall see
he inquir he is n this class of banks are, and have to be, elected
(The op little discrimination, which is a first guarantee. Next,
system ct ove its on the Committee are likely to be such as the
perhaps be explain ly feel sure that they can trust. In addition,
neverthe may be rea has an active Council of Supervision above it,
of inspe people with check all that it has done. Furthermore there
subdivid k by them will indeed have to be, full publicity. In this
Committe not merely erything that happens becomes known, or can,
arge ba imparts. scertained — everything except the deposit of
or five it is a necessary condition for it. There must
or small, in a healthy room there must be oxygen, to

keep out corruption. Therefore, as far as privit £. s. d., were
member has his remedy in his own hands. Beyit be altogether
an unwritten rule, that, wherever there are membe,re particularly
whose liability goes appreciably beyond that of t share in the
other members, such members—that is, wealthy, their money
have larger possessions at stake—should as a npersonally for
be represented on the Committee, so as to be ke, if there is a
what is going on, to have a voice in the managennot, for some
able to nip in the very bud any project which attention which
appear dangerous to them. And, knowledge being join at all, but
ways fully secured, wealthier members may qu with a deposit
protect themselves by going out of the bank ahe will incur no
unlimited liability banks they are entitled to tha fixed by himself.
Share banks we have seen that ample notice shnatter of course
upon. Resorting to withdrawal means becomi common rule be
moment of all liability in respect of engagemability would lose
entered into. In respect of engagements alreace worthless. The
going members will of course have to remais whole interest.
certain fixed time. In Germany that time is t Once he divides
is none too long, but sufficient. I do not bel case a cipher. *
early stages of the movement a bank will incur specifically as it
yet creditors who have parted with their moneink, disposed of,
be shortened to a year. But it comes near a n is made for the
faith, not only with creditors, but also with ins will at the same
to limit liability, as is proposed in some generallity is, under the
rules" that have come under my notice in thiswhat are the ad-
months only. How the Treasury, which is the
ian of the public interest in respect of "spe*members*, which is
societies," could have consented to so manifestlyreater importance
I wholly fail to understand. By strict right, the lation. For Share
is liable in respect of *every* liability incurred duent by capital, and
ship, *without limit of time*. That was the in respect of any
expressly pledged, to the depositor or the le give a specific guarantee
the only security which the latter cared at

one of
supervi. repayutgoing members the period of liability has been
charactsays ıerally two years. I am content, for the present, while
enteredl witthingsemain few and small, to have it limited to one
for evech c limit hat, at any rate, gives depositors and lenders time
adminis:stituty very.ty to learn the fact of certain members accepted
the elecl suanrobalureties having withdrawn, from the annual report—
manner ; inthe seeime will be forwarded to them. They may then
separatedged ot bev withdraw their loans—supposing that such are not
being jeıe gu:o fixed for a longer term, in which case the injustice
further ste thesthe oemain unabated. To cut down the period to six
advantacl aaccorespecıust mean to deprive them even of this modicum
The its prevsing tland inflict a crying wrong. To make matters
is similæ'sking. outsiors of the "model rules" limit incoming members'
servicesserao loıat no period of their membership only. That is per-
the Maıbferfe. st not eitself; but, since outgoing members' liability is
entrusteiter bserv limitatiaway, apart from wronging creditors, it may
the gércan by th, suppratively small number of instaying old members
for suchf ıy becuch file extent, and possibly wreck the bank in, it
The querias than le forise a flourishing condition. The Treasury should
frequent itiem falsies witsolutely absurd rule is cancelled—the sooner the
an expe tc be fouthat isit will incur a serious responsibility. The person
to inspeit may be st be attention in the rules of the bank is the creditor.
he inquiıo he is ndequatehas to be secured. It is idle to suppose that
(The one little this a rule so directly opposed to his legitimate
system ctove its discrimin credit.
perhaps be explain on theen, that a wealthy member goes out, the bank
neverthenay be really feels support, which we must assume to be distinctly
of inspeceople with has an Its credit will be lessened by his retirement.
subdividnk by them check at likely lightly to let him go. Were he to threaten
Committaot merely will inmeans of preventing some questionable engage-
large bay imparts. rything would be likely to abstain from entering into it.
or five scertainl be admitted that here is sufficient protection
or small ıt is a ided that members will only take the trouble to
ın a heey do not, the fault will rest with themselves.

Other safeguards, to be represented purely by *£. s. d.*, were they conceivable as adequate for the purpose, must be altogether disallowed; for the bank wants its members'—more particularly its wealthier members'—*personal* attention and share in the management, quite as much as, if not more than, their money guarantee. Each member is to bestir himself personally for the benefit of the common concern. Therefore, if there is a wealthy man who wishes the bank well, but cannot, for some reason or other, afford to give the time and attention which membership requires, he had much better not join at all, but assist the bank, if he feels at liberty to do so, with a deposit or a guarantee as an outsider. In so doing, he will incur no liability whatever except that for the specific sum fixed by himself.

Liability being unlimited, it follows as a matter of course that pluralism is inadmissible. A person may by common rule be a member only of *one* bank. Otherwise his liability would lose its ascertainable value, and might even become worthless. The one bank must have his whole liability and his whole interest. If that be done members know where they are. Once he divides his allegiance he becomes potentially in either case a cipher. *

The bogie of members' unlimited liability, specifically as it affects the wealthy, having thus been, as I think, disposed of, it will be well to show what general provision is made for the safety of lenders' money. Such demonstration will at the same time help to make it clear why unlimited liability is, under the present aspect, absolutely indispensable, and what are the advantages which it secures.

In the first place there is the *election of members*, which is in the present case a matter of very much greater importance than in Share banks, requiring careful discrimination. For Share banks, after all, secure themselves to some extent by capital, and obtain, as a rule, more convertible security in respect of any

* That does not mean that a wealthy member may not give a specific guarantee in respect of another bank, if the matter be made known.

advance made. In Village banks pretty well everything turns upon the member's character. And it is just this which invests them with so great an educational value. Liability being unlimited, every one being responsible for every one else, election could not be allowed to become a pure formality. The applicant's character and past life will be inquired into. Poverty makes no difference. The man may be as poor as a church mouse. If he is known to his neighbours as an honest and trustworthy man he will be readily elected all the same. But he must have character. Therefore we begin with a membership of presumably careful and honest men, elected not *en masse*, but singly, after the first handful—it may be only two or three—have joined together as a nucleus.

Next, the conditions involved in such membership in themselves make it indispensable that the bank's district should be only *small*. In a district of any size there could not be sufficient personal touch and knowledge of members and applicants, and the safeguard of election might thereby become illusory. A parish with 400 inhabitants, or little more, is considered the ideal district. In some cases it is possible to combine two or even more parishes or districts to be served by one bank. However, such instances are rare, and it is a mistake to seek for opportunities for expansion beyond what natural conditions permit. Largeness is not by any means required. But personal knowledge, close touch and automatic supervision cannot be dispensed with.

Election being made a serious business ensures the *educational* effect aimed at better than anything else. The bank has something to offer which the peasant, or petty tradesman, or artisan stands in need of. But it will not have him unless his reputation passes muster. It could not afford to have even speckled sheep as members; for that would mean loss of credit outside, and danger within. Accordingly, doubtful persons are unmercifully rejected. In many, many cases have they in consequence of this

mended their ways in order to become eligible. Not only have they taken to paying regularly for what they bought, become industrious and peaceable, but they have gone the length of giving up drinking, and grown altogether respectable. Such results are freely attested from all countries. In fact, in Village banks, de Foe's dream, indulged in in "Giving alms no Charity," appears to have been made a reality, and "drunkards are made to take care of wife and children; spendthrifts lay up for a wet day; lazy fellows become diligent; and thoughtless, sottish men careful and provident." Even the Servian peasant in the country of "Sliwowitz" has renounced his dram. *

And such creditable behaviour adopted could not be thrown aside after the election is over. For the relapsing member's stern judges continue in session, and, prompted by their own interest, would not shrink even from using their power of expulsion. Whether the man really means it or not, accordingly, while he remains in the bank, he will have to consider himself on his good behaviour.

However carefully selected members may be, as a second bulwark, the bank will take care that it has proper security given to it. It rests with the Committee, of the composition of which I shall still have something to say, to determine what in any given case the security should consist in. It has its own liability to make it cautious in the matter. Sureties are, as a rule, the most advisable form. Pledges are sometimes given, and even mortgages on real property. But they should in all cases be treated as collateral security only. "What I particularly like about co-operative banks," to repeat Léon Say's phrase, "is,

* For some remarkable instances see *People's Banks*. What I have said should, by the way, show how utterly opposed to good practice is the method specifically recommended in some would-be "model rules," issued in England, namely, that of touting for recruits and business by means of "prospectuses," to be ciculated throughout the village, setting forth "the advantages offered" by the bank. Members and loan-seekers must come to the bank, asking for a privilege, to be granted on terms. The bank must not go to them.

that they give *personal* credit—just credit without any qualification." In Italy, as an instrument of credit, acceptances, endorsed in such manner as the occasion may demand, by one or more sureties, are common. They are convenient; they may in case of need be passed on; and they keep, as has been already observed, the debtor well in hand. They are granted in any case for three months only, for however long it may be understood that, all conditions being complied with, the debt will be allowed to run on; but, within such limit, they are willingly renewed. In Germany the peasantry are frightened at the idea of a bill or promissory note. Accordingly, a note of hand is the more common form. In the event of long term loans the bank secures itself in a special way, as will still be shown. Only quite recently has the system of current accounts (by overdraft) been introduced into these banks in Germany. Previously they had no genuine "banking" whatever. This is a step in advance. But it argues a stage of development such as the originators of the system could not, in their day, have contemplated as near at hand. It means that the member's business, whatever it be, has been to some extent commercialised, which is a development, and that he himself has become trained to business habits. Among a selected membership there can be no difficulty about ascertaining whether a particular person is to be trusted with a "passive" current account or not, to what extent that account should be granted, and what security should be asked. So the matter presents no difficulty. In the main, the earlier practice of only borrowing by specific demand still holds the field; and it is sure to preponderate for a long time to come. Therefore our business must lie almost exclusively with it. Under that practice every advance granted is granted only for a *distinct, specified* purpose.

This is one of the peculiarities of the system. The loan is granted for a specific, approved purpose; to that purpose the borrower is rigorously tied down; and in this way the employ-

ment of the money is itself made a security for the loan. Applying it to other uses forfeits the loan and makes the borrower and his sureties liable. A man misapplying the loan would of course not be allowed to borrow again. In fact he would be got rid of as being untrustworthy. It is only fair to state that I have never heard of any case in which such a thing has happened.

There is no limit by rule to the objects for which credit may be asked or given, beyond this, that the object must in every case be legitimate for the person who asks for it, and that, being of a nature to improve the borrower's material position, it promises to repay itself with increase out of the outlay itself. In practice, however, objects range, generally speaking, over a rather circumscribed area. In the case of the peasant or small holder there may be a cow to buy, or a pig, or a calf, or it may be a horse; or else implements, machinery, fertilisers, feeding-stuffs, seed; or, once more, there may be a house to be built, or a shed, or a pigstye; a well to be sunk, a field to be drained, a wall to be set up; or there may be a field to be purchased. The village tradesman may require raw material, or tools, or else he may want money for holding over his goods through a slack season. Both classes alike may require money for household purposes, to effect a saving by timely or wholesale purchase. Or they may want to substitute a debt raised at a reasonable rate of interest for an exorbitant one. Whatever the object may be, the bank is ready to consider it, and if its means permit, and it judges the outlay legitimate in the case of the particular person, to grant the loan. On the other hand, a man is not allowed credit for useless or extravagant expenditure, or for a speculative venture, even though the article to be speculated in might, in ordinary circumstances, be held legitimate. Provided that the object is approved, and the amount asked is judged to be appropriate, the bank is willing to let the man have all the money that he wants, and for as long as

he may require it to recover what he will spend out of his outlay. It would be no kindness, but rather the reverse, to allow him, say, £20 when he requires £30, or to let him have his money for six months, when he wants it for ten. In that case he would have to trench upon other sources of income or credit, and that would necessarily embarrass him; it might mean driving him perforce into the usurer's arms. Therefore it is a mistake to tie down borrowers, even preferentially, to short terms, arbitrarily fixed, as a matter of red tape. A committee of neighbours can easily determine all questions arising.

The conditions here stated, of previous approval of the object of the loan, and a sufficiency of money provided for carrying it out, call for no comment or vindication. However, the third condition referred to, that of adequate time for allowing the loan to reproduce its own value and something more, has been rather sharply challenged in hostile quarters. It has been urged that a co-operative credit society, dependent for its means upon loans and deposits withdrawable at short, or without notice, is not in a position to grant loans for two, or five, or ten years. The answer to this of course is, that the bank does not earmark its sovereigns and lend them out one by one, being careful to call them in in the same order. The withdrawal of any number of particular sovereigns cannot affect it, so long as it can make reasonably sure of having money of some sort or other at its disposal. And the deposit money of these banks has proved as a rule to be remarkably "good, lying money." However, there is no necessity for insisting even on this valuable quality of its deposits to justify the Village bank granting loans for long terms. And, indeed, its critics have really placed themselves out of court for raising this point at all by doing precisely the same thing as that which they object to, with less justification. For, even in Share banks of the very straitest sect, I have found loans which are allowed to run on for quite as long periods—that is, for ten years, and even up to twenty

—not by any means unknown, nor made a secret of, as if they had been granted in violation of any accepted rule. What the managers of such banks urged in justification was that—"there was the money" and employment had be found for it; they knew that it was safely employed, and it was employed where it was doing good. And there is no answer to that.

However, what critics of such long lending in Raiffeisen banks—which is absolutely necessary—overlook is, that circumstances are in those banks widely different from those prevailing in their own societies, from which they rashly judge. It is quite true that you cannot lend out a sovereign, of which yo are allowed the use for a fortnight, for three weeks. But y may very well lend out a sovereign that is lent to you in ten years for the same period. The Share banks descrha cannot generally indulge in long credit, because their bus y. is, as a rule, one of short transactions and quick turn over. the moreover, short loans are amply sufficient for their own bus h up In a further chapter I shall show that co-operative organisa ere properly adapted for the purpose, may very well, and wi for any inconvenience or risk (in respect of time), lend out that on mortgage for as much as sixty and seventy years ocal operative banks of the Schulze-Delitzsch or Luzzatti types that not do that. Co-operative Mortgage banks equip then ghout for it by themselves raising their loan money for at it is long periods. Village banks of the Raiffeisen type d up intermediate position between the two. They are not nd in to lend out money for sixty years, but it may be for of inten. To provide themselves with that money they do this *Creditvereine* and *banche popolari*, rely on shares, or co ss for exchange, or promissory notes, but on *liability pledged* d the *for a long time* for the specific purpose of pledging it es not Their borrowing business is really not banking at all, which gaging—mortgaging, not land or house property, but eeting.

liability ascertained to be sufficient. * Accordingly, they are perfectly in order in granting long term loans as they do.

Rigorous insistance upon prompt payment is another characteristic feature of our present system. And, without doubt, harsh as it may appear to people new to such banking, it is necessary and represents sound policy. Dealing with its small funds obtained by pledging its liability, the bank would not know where it was, if it could not rely upon having its money back at the proper periods. And its educational objects demand the same caution on other grounds. The bank is to make people businesslike, to teach them to calculate, to make ...em conscientious. It does not follow that the borrower will ... obtain an extension of time, or an extension of credit, upon ...ving cause. But that will be for the bank to determine. ... will have to make his case plain. The interest due must ...aid to the day, and also the prescribed instalment of the ...pal. For repayment by instalments is an accepted feature ...s kind of credit business. In any case it facilitates repay... especially to borrowers of the poorer class, and holds ... more strictly to their terms. But the longer are the ...s for which the loans are habitually granted, the more ...nsable is it that the debt should be steadily reduced, as ...oes on. Should the borrower fail in his repayments, or not ... the money as was stipulated, the bank, as already stated, ...pecial clause included in all contracts, retains power to ... the loan summarily at four weeks' notice, making the ...r and his sureties responsible.

... is what the late Duke of Argyll commended in a letter ...aid: "Your system of strict payments and watching ... is admirable." Admirable it has been found in practice. ...reated a new kind of security. It has made uncultured ...businesslike and conscientious. And the best proof

...s another reason why the limitation of out-going members' liability ...st a year is indefensible.

perhaps of the efficacy of the rule is to be found in the rarity of its application. It has remained a birchrod on the mantle-piece, a "terror to evildoers," without becoming an instrument of active punishment.

The Italian Village banks secure the same object by the practice of renewal every three months. That leaves the borrower a little more time, should he have disregarded his terms; but for practical purpose it is found equally effective. And some such rule, under the special conditions of the case, there will have to be wherever this system of banking is applied.

The precautions described have been found to provide adequately for the safety of money borrowed. However, there is more tc· tell. Our system requires machinery for carrying it into effect› That machinery is constructed on lines similar to those obtain-ing in Share banks. Only, since the system is simpler thats that of Share banks, so also is the machinery adopted. Buy. if simpler, it is also stricter and more exacting, among otlhe things, in respect of inspection and overhauling, without wh up no co-operative banking can be safe. And this system, in pere ticular, could not possibly do without it. for

The conduct of business is in Germany entrusted to a Cthat mittee of five—which figure, being the Indian "punch," seocal likely to make this banking system, now at length introd that into our great Eastern dependency, easy to learn amonghout rayāts. My own impression is that in very small ban it is Committee of three is amply sufficient. In many French V?d up banks of the smaller order it is found so. It is a nd in mistake to over-man the executive, or to embarrass it, as of in-people have sought to do in this country, with cumbrous this ceedings. That will probably be at the expense of coss for which wants to be kept very efficient. The quality above all ad the to be secured for an executive is the capacity for prompt aes not However, there certainly is an advantage in having some which beyond the proper quorum, which ought to be three. A eeting.

has been found a good number. The Chairman, who is really chairman of the *bank*, and who presides over the *Committee* ex officio, occupies a privileged position, and is elected, not by the Committee, but by the General Meeting. Raiffeisen used to say that, provided that a good Chairman and a *Rechner* (secretary or cashier) could be found, a new bank might begin work, counting upon other members to drop in. In practice there is always a larger number to start the bank, though it is often very small. The Committee should, as far as possible, represent all sections and localities of the district; and, if there are wealthy people in the bank, such ought as a matter of right to have representation upon it. But it would be a fatal mistake to make the wealthy, or the more highly educated, the sole, or even the principal, administra-ors of the bank. There will be no confidence, no willingness—hich qualities are indispensable—unless one man is recognised fully the equal of another, and unless those for whose benefit bank is intended have the main say in its doings. The mmittee should meet as often as is at all required. But, as t will necessarily be at intervals, and as the utility of the k is in a great measure determined by the promptness with ch it can render assistance, some provision should be made emergency operations. After all, the business is so simple in pressing cases a member of the Committee should be to obtain provisionally the verbal consent of his colleagues walk through the parish.

e Committee's doings are watched and overhauled by a ncil of Supervision," consisting of from six to nine members, more as fully representative of all classes and sections osing the bank's membership as can be. The Council visedly made larger than the Committee, because numbers it with greater authority and also provide more ample ial for information, which is altogether necessary under the stances. For in Village banks the questions of the pro- of distinct loans, compliance with rules, discretionary

treatment of borrowers, and the like, are likely to bulk larger than mere questions of account. In view of the smallness of the district and the paucity of transactions, in comparison with the Share banks previously spoken of, inquiry by the Council of Supervision is likely to be more searching; and it certainly ought to be so. In fact, examination by the Council is one of the main safeguards of the bank and cannot be neglected with impunity. No doubt there is a difficulty to be faced. It is not easy at the outset, it may not be easy later on, to find in a village a sufficient number of men properly qualified to carry out the duties of members of the Council. That has been a difficulty in Ireland, and I believe also in India. Under such circumstances it is quite right that, as has been done in Ireland, inspectors should be sent down from headquarters to check the bank's doings and act practically as a Council. A similar difficulty has been experienced in Germany. And that in part accounts for the practice adopted by the Neuwied Union of having balance sheets and reports sent up bodily to headquarters from every bank every year, to be there carefully inquired into and sent backwards and forwards for interrogation and answers; till all is made clear. However, that can never fully replace a vigilant and actively interested local Council, which is sure to detect flaws and points of danger that escape an outsider's notice. A bank cannot really do without a Council of its own. Accordingly, the local Council, if it is not equal to its work at the outset, should be carefully trained up to it. The inspector may come down from headquarters and in the first stage do the principal work. However, the *form* of investigation by the Council ought to be preserved, and by this means gradually should the local men be educated up to fitness for their task. The bank will be all the stronger for this. And the Committee will be in a better position to refuse what it does not approve of, because there is the Council above it to point to, which may disallow, and rebuke, and report to the General Meeting.

Just as the Council of Supervision plays proportionately a more active part in the examination of the Committee's doings in the Village bank than in the Share bank, in the same way do the members generally in their turn, within the small compass of their business, more actively supervise and check their representative bodies. In fact, the interest taken generally in the doings of the bank by members and by the local population as a whole, is one of the distinctive features of this system of banking. And it is right that it should be so. The more eyes watch what is being done, the less possibility will there be of imprudent actions or neglect passing unnoticed.

In some of these little banks you may see the list of Members of the Committee and of the Council, even of the loans outstanding, hanging up in the bank's office. In any case, the books, other than the deposit ledger, are open to inspection by members. And the bank's office, which in Italy very often is the *municipio*, or village hall, becomes the centre of interest to the local population. Some of the banks in Italy, in order the more to interest members in their transactions, levy a small fine on those who do not attend General Meetings. Really such measure is scarcely required. Members flock to the General Meeting in at least the same proportion that in the other banks they stay away. And they show themselves remarkably inquisitive.

Above the Council of Supervision and the General Meeting once more, as in Share banks, stands the Union with its independent, searching, outside audit and inspection, which is, in Germany and Austria, made compulsory by law, and of which I propose to speak in a separate chapter. At the present point I will content myself with pointing out once more how systematically inspection is graduated in this system of banking. You have, first, local inspection by directly responsible people who can judge better than any one else of the propriety of a loan. You have, afterwards, expert scrutiny by an accountant, responsible, not to the bank, but to a higher authority, therefore sure to be strict,

in respect of compliance with the law, with rules and with accepted principles of business; and you have often a final checking by an inspector of inspectors.

By such means as those described a rigorous and dependable system of checking is set up, which in so small a world scarcely permits anything to escape unobserved.

There is, however, one more point at which business must be safeguarded. Those who administer the bank ought to be above suspicion. Of course they will be selected with discrimination. However, care must be taken to place every temptation to slipshod management or wrong doing, out of their way. The governing idea is, that everything that could be suggestive of individual profit and "lucre" must be kept carefully out of the bank. There is to be one interest only at work, namely the members' generally. Everybody stands to benefit in the same measure by the facilities which the bank affords. But that is to be all that he can get out of it. His profit must be outside the bank. Inside there must be no pickings.

That is, in truth, one of the reasons why shares are not desired. A share, in whatever shape it be issued, means a capital stake, And a capital stake means dividend. Dividend must mean individual gain, and is liable to abuse, as it has been abused—in a pseudo-Raiffeisen bank—in the case quoted in the preceding chapter. * Therefore there must be no dividend, and hence, by preference, no shares. Since, under some co-operative laws—which, like the *serviteur du diable* of the French proverb, give more in the way of regulations than is asked of them—shares there must be, the dividend accruing from them—a mere trifle—has in well principled Village banks been voted away in advance, once for all, to subscription for the co-operative paper of the Union.

This brings me up to the point to be now dealt with. Just as there are to be no dividends, there must also be no salaries.

* See page 51.

Schulze would have everyone paid, in order to be able to make sure of good service. Raiffeisen, as consistently from his own point of view, disallowed all remuneration, looking for better service under the peculiar circumstances of his own case to be rendered for the sake of the cause. Neither members of the Committee nor of the Council draw any remuneration. (They may of course be reimbursed out-of-pocket expenses.) This makes them proof against such improper influences as this. They owe their office to election by the members, who are by presumption the very people who will come to ask them for advances. So long as their office is worth nothing to them in money, they may be considered trustworthy keepers of the society's purse. For they have no inducement whatever given them to allow or refuse credits, except according to the merits af each case. But suppose that they draw a salary or fees, and that that remuneration is worth something to them, the applicant may threaten them in this way: if you do not let me have the money, I shall vote against you, and get my friends to vote against you, and so your remuneration will go.

Accordingly, there is only one man paid in the bank—and he only at a very moderate rate—and that is the Secretary or Cashier *(Rechner*, or, in Italy, *ragioniere)*, whose duties are purely ministerial. He must not be a member either of the Committee or of the Council. He must not have a vote. He has no say whatever in the granting of credits. And the more the money which he has to handle is, in the bargain, kept out of his hands between sittings of the Committee, the better will it be. For there have been cases in Germany—though only few—in which such a man has absconded with the cash. There is some difficulty in Germany about his finding security. That would, so it is pleaded, keep out desirable men when poor. And, somehow, fidelity guarantee insurance has not been largely taken up in that country, at any rate under such humble conditions. The amount in the Secretary's hands, no

doubt, can never be very large. But, in any case, it is safest to adopt the Italian principle, of putting what cash balance remains from sitting to sitting into a place of safety—say, for instance, of paying it into the savings bank—and then all will be secure.

This incidentally raises a question which, but for a truly astounding ruling given by the Treasury, I should not have considered deserving of discussion, namely, that of the employment of Village bank funds. Generally speaking, it is not to be assumed that Village banks will have at all large funds at their disposal to invest otherwise than in loans. Even their reserve funds are, as in the case of Share banks, rightly held to be employable in loans. And, apart from what is required for such, Village banks cannot be said to stand in need of any considerable ready funds. However, our Treasury—exceeding, as is thought by some counsel, whose opinion should be worth something, the powers given to it in the Friendly Societies Act—has ruled that the funds of a Village bank may lawfully be invested "in the shares of an Industrial Society registered under the Industrial and Provident Societies' Act." What the particular officer who sanctioned such employment may, at the time when he gave his sanction, have been thinking of, I am at a loss to conjecture. Obviously, of all kinds of employment, that here needlessly and gratuitously suggested is one of the most improper. For an "Industrial Society," registered as described, is in the best of cases only a speculative, and therefore risky, undertaking. Since it is such, it is perfectly right and proper that a wealthy philanthropist like the late E. Vansittart Neale, for the sake of encouraging a good cause, should stake—and eventually lose—what may be described as a fortune in such investments. His money was his own. What the Village bank disposes of is not its own. It is borrowed money, for which it is trustee, or—which comes to the same thing—money laboriously collected, and virtually pledged as security to lenders.

And all "Industrial Societies, registered etc.," are not merely speculative undertakings. Some of them are distinctly bogus concerns, taking advantage of a convenient Act to curry popular favour. So far from the registration referred to being a recommendation, it ought in such cases to be accepted as a most suspicious symptom; for it shows the nakedness of the land. A banking society is formed with insufficient capital, being therefore from the outset of doubtful standing; and, to save expense, it registers under the cheap Act. The bogus banks, pseudo-co-operative, so formed, number—as I can testify, having in various instances been asked to join them as a "drawboy," and so having obtained an insight into their schemes—among the most undesirable undertakings for Village banks to invest in. Indeed, a Village bank should in all circumstances, like a shoemaker, "stick to its last," and avoid mixing itself up in other ventures. It is there to *lend* money to "industrial societies," not to *stake* its money in them. Several of the banks spoken of have, as was to be foreseen, very promptly come to grief. Other collapses are likely to follow. But such banks, of all "industrial societies," have a most alluring bait to hold out to necessitous Village banks—a bait which has already proved effective, when coming from another quarter—the bait of supplying share-holding banks with money in cases of stringency. The money is, in truth, sure to pass all the other way. But unwary Committees may be caught with the chaff.

Now how, I should like to ask, comes the Treasury needlessly to go out of its way to place such enticing temptation in that of the little Village banks, in the management of which it is called upon to interfere only so far as such conduct is called for by regard for their *safety?* In a Bill now awaiting the consideration of Parliament, a well-known Member of Parliament, acting on my advice, takes power on behalf of Village banks to invest in shares in an industrial society, being, as I should explain, a central bank, "*having a board of management*

elected wholly or in part by the society, or by the society jointly with other rural credit societies" That is a different thing altogether. The Treasury recklessly, and to the imminent peril of the society which it is called upon to befather, discards our limitation. Most earnestly would I urge Village banks to abstain scrupulously from the use of the dangerous power, the Pandora's gift which a slumbering or else unreflecting godmother in Downing Street has forced upon it. Such use would be deadly poison to it. Village banks ought to be careful in the extreme in their investments, if they have any to make. The powers given them in the Act are, with the above mentioned qualification absolutely sufficient. It is indeed seriously to be hoped that the Treasury will take the earliest opportunity of cancelling the power given, and here complained of. Nobody knowing what a Village bank should be could have asked for it.

There is one provision still to mention, which adds not a little, as time goes on, to the security offered to depositors and other lenders of money. At however cheap rates our little bank may lend out its cash, it will in prudence have to leave some margin for the production of an overplus. Since nobody is to have any individual gain out of the bank's business, that overplus must remain in the bank's hands as a collective possession. And that is just what is intended. There is to be an ordinary reserve, of course. But at the back of that also there is to be a growing endowment, belonging to the bank as a whole, an endowment to be used as an emergency reserve fund, should occasion arise, but otherwise to be allowed to accumulate without any trenching upon it whatever. It is declared by rule indivisible and inalienable, and is not to be shared out on any consideration, not even in the event of the bank coming to an end. For otherwise it might, in course of time, become a spoil tempting to the wrecking of the bank. Should the bank be wound up, the rules provide that the endowment fund is to be handed over for safe keeping to some trustworthy

public authority, to be by it restored to its old purpose, in the event of a new bank being formed under the same rules in the same district, or else to be laid out in some useful way for common local benefit.

By such means everything seems made tight and secure; there is no crevice left for leakage. And this fund must, in proportion as it grows, become a more and more ample security to creditors, whose borrowed capital it may indeed eventually replace.

In countries like the United Kingdom, under present circumstances, the endowment fund (*Stiftungsfonds*, originally *Vereinsvermögen*) is likely to grow only slowly. In Germany it has in some cases increased very rapidly, and assumed substantial proportions, because agricultural property is subdivided, and sales and purchases of land offer very favourable opportunities for earning the bank a profit. Thus, for instance, it is not unusual, whenever some property is offered for sale, and there are known to be applicants for portions of it in the village, to map it out in lots, and offer it through the bank for sale at a mock auction. The bank is not bound by the result, but the bidders are. Accordingly, if the sham sale should result in remunerative bids, the bank will buy the property, divide it at the prices offered, and pocket the surplus. Maybe we shall arrive at such a state of things in course of time.

There is another method still, by which the reserve or endowment fund is in Germany made to grow. Village banks very often engage in distributive or supply business for the benefit of their members, purchasing agricultural or other implements, as a store purchases groceries. From such business a surplus ought to result, which is carried to the common reserve. Raiffeisen's original idea was, that these two branches of business should be kept distinct—the sales being managed by one society, banking by another. Practical considerations have led to the two branches being sometimes united on a

small scale, in little villages. And there is certainly something to be said for the arrangement, if the limitations here postulated are observed. Abuse is not likely to occur so long as the accounts are kept strictly distinct. The transactions are too few and in every instance admit of easy tracing. After all, in a village, everything is small; control is easy; every transaction can be checked; here are the same members for both kinds of business already organised in a society; and there is the bank's money to help!

Once more, as in the case of Share banks, I think it will have to be admitted that sufficient safeguards have been provided for carrying the money entrusted to the bank safely and without loss through the various stages of business, while doing an inestimable amount of good in a truly astonishing variety of ways to immense classes of the population. As a matter of fact, though these little banks now number by a good many thousands, and their work has been in progress for more than half a century under a remarkable variety of conditions, losses have been infinitesimal. A draft has occasionally had to be made upon the emergency reserve fund; sureties have been compelled to pay up. But neither member nor creditor, so I believe, has ever lost a penny. And the system has been judged so safe, that in some districts of Germany local law courts have allowed trust moneys to be deposited with these banks. Such distinction has now ceased, not on the ground of any loss of confidence, or suspicion of deterioration, but by reason of a revision of the German law-code. Nor do the Raiffeisen banks covet the privilege previously conceded to some of their number. For the receipt of trust moneys must reasonably mean an amount of Government supervision and interference which would be felt as excessively irksome, and might dangerously restrict their freedom of action. Several German States have continued to show their unabated confidence in these banks by allowing public moneys to be deposited with them.

Thus by ingenious expedients a system has been built up which enables wealthy men to assist the poor without adopting the demoralizing practice of gifts, and which places power in the hands of co-operative institutions for coming to the rescue of the very poorest—the very beggar on the dunghill, it may be, provided that he is found honest, or the all but bankrupt petty peasant—and raising them up to independence, and it may be wealth, certainly to self-reliance and self-respect.

"All this," so writes M. Rostand, President of the great Savings Bank of Marseilles, "surely is a practical realisation of the co-operative ideal in the village. It is possible only by union, by the spirit of solidarity." It is, in very truth, what M. Luzzatti has called it, "the capitalisation of honesty." For it is honesty and character that are by this ingenious combination of rules made the security for money.

It will also now be seen for what reasons unlimited liability is indispensable in banks of this kind, and what in truth is the part which it plays in the system. Its object is less to facilitate credit by the mechanical means of pledging an excessive money value, than to render credit possible by making personal interest, quickened vigilance, and a keen sense of responsibility effective towards that end. Without unlimited liability, people would never be half as careful as they are required to be, in the election of their fellow members. They would readily stretch points from a sense of unwise generosity and kindness. Unlimited liability remorselessly banishes all etiquette, and applies the one true test. It is the same at all points of the system. But for the unlimited liability pledged, members would be careless in the election of committeemen, of councillors, in their inquiries into the business done, in their attendance at General Meetings. Unlimited liability sharpens their wits at every point, and makes that safe which otherwise would not be so. But for unlimited liability, committeemen would probably allow many an application for credit to pass which is economically unsound,

all the more that the property of the bank is common. Without unlimited liability, the council of supervision would be much less critical. The bank *must*, for want of money, have the security of vigilance, of keen scrutiny, of a sense of responsibility. And these things are not to be got without unlimited liability, which puts every one on the *qui vive*. For the poor man's pence are as precious to himself as are his tens of thousands of pounds to the rich.

It will also be seen what is the part which wealthy men are called upon to play in the scheme. It is not "ransom" that their poorer neighbours ask of them, but guidance, counsel, example. Their gold comes less into play—except at one point—than their personal influence and active interest. And one of the chief merits of the scheme is just this, that it enables wealthier men to come to their poor neighbours' aid with their credit, it may be their money, their influence and labour, without degrading the beneficiaries by gifts. A gift would spoil the entire scheme, as a particle of impurity spoils crystal glass. It must not be, for the members' own sake. They must be trained to self-reliance and self-help. The scheme is, once more to quote M. Rostand's words, "a happy combination of business and the truest, the most practical, philanthropy," which has created, in the words of the Hungarian, Professor Dobransky, "a real world of brotherhood," and for which humanity remains its debtor. And it has proved its safety by experience.

CHAPTER VI

CO-OPERATIVE BANKS AS SAVINGS BANKS

IN the preceding chapters I have endeavoured to show how money may be kept safe in a co-operative bank. It is not by any means unusual for people freshly approaching the subject to want to begin at the other end. Their first question is not, how is security best to be provided, but, how is the money required for credit purposes to be *obtained*? That clearly is putting the cart before the horse. The money will be got, and rightly got, if got at all, *only* if it can first be shown that it will be employed with safety, so as to ensure repayment to the lenders. Accordingly, the keeping of the money safe, avoiding all risk of its being lost in the course of employment, and providing for its repayment, must necessarily stand in the forefront of the problem. I hope I have sufficiently dealt with that point. Having done so, my task will now be to inquire how, on such premisses, the money wanted for the bank's service is to be secured.

Obviously, there are in any case only two sources open for the obtainment of money. And one of them is, in our instance, manifestly excluded by our opening supposition, that the people who combine to form a co-operative bank are more or less short of capital, and cannot therefore provide sufficient money out of their own purses. Accordingly, borrowing from others—which in any case constitutes the banker's business—becomes the only available expedient.

Now, in respect of this, once more, novices are apt to begin at the wrong end. They would borrow in a grandiose way,

like a State, in big sums, from large capitalists. They look for good round hundreds and thousands, to be furnished as substantial endowments by millionaire banks, or else by capitalist well-wishers, and, since such quest generally ends in disappointment, they gladly accept the easy-going principle which has grown fashionable, not abroad alone, and turn expectant eyes to the guardians of the public purse, looking for manna from that terrestrial heaven, which, so they seem to forget, represents, not a spontaneously generated cornucopia, but laboriously earned taxpayers' money. "Is not their cause a good one, promising benefit to the community? Well, if it is so, clearly it deserves support from the public purse." "Taxpayers' money," so it may be well to point out, the money granted will be, even though it be actually taken, as is now freely asked, from such a subsidiary source as our public savings banks. For in the United Kingdom, at any rate, any draft furnished by the savings banks bears the taxpayers' binding endorsement upon it, and if, by any chance, money should be lost in the transaction, it is the taxpayer who will have to make it good.

The expectation indulged in has unfortunately abroad been only too frequently realised. The State, listening to the plausible pleadings, has dealt out taxpayers' cash. Hence we find the same hankering for the same boon now asserting itself in the United Kingdom. Ireland has unwisely led the way.

No doubt, gifts or advances, like those here suggested, make the bank's work distinctly more easy in the beginning. And, the consideration of State aid apart, *some* money of course there will have to be to begin upon—so it will have to be understood—to answer the purpose of the pailful of water poured into a new pump to make the sucker work. Both Schulze-Delitzsch and Raiffeisen had to send the hat round for such money, and M. Luzzatti begged his £28 together, with some difficulty, from sceptical friends, who subscribed £24 out of it—he himself providing the lion's share of £4—really "to do him

a favour." Had these three men been able to go to the Exchequer and claim an endowment of a cool hundred or two, their task would have been much facilitated.

But would the easier method have produced the same good results? It could not possibly have done so. There is no need to go into argument. One brief glance at co-operative banks grown up by independent efforts, as compared with others coddled with gifts, will suffice for our purpose. In the former we find co-operative spirit, unselfishness, enterprise, self-reliance, mutual helpfulness and "go;" also natural growth from poverty to sufficiency, from sufficiency to wealth; and always solvency. In the latter, we discover neither self-reliance, nor sound finance, but on the contrary, trusting dependence on others, like that of an unweaned calf upon its mother cow, insatiable cupidity for "more," uncoupled with any sense of responsibility or realisation of duty. Epiphyte the bank starts, epiphyte it remains, exerting itself only so far as under imperative direction from its benefactor it needs must do so, in order to comply with prescribed forms, being virtuous for the sake of reward, a machine rather than a self-initiating, living, and therefore growing body. And, even so, the help obtained from outside, from which so much was expected, is found to fail in the end, because extraneous sources are incapable of producing all the money that is ultimately wanted. And then, after all, in steps inevitable Fate with its harsh judgment, condemning those to efforts of their own who thus far had been, so to put it, carefully trained away from self-help. Like the hapless Babylonian maidens of Isaiah, after being nurtured in luxury, and spoilt with "wimples and crisping pins," they have now after all to "take the millstones and grind meal;" for there is no credit that will last, that has not to be earned by one's own exertions. It is a harder task to buckle to the work then; but if it is not accepted, the vaunted "co-operation" fails.

However, such argument is purely utilitarian. There is higher

ground to take. For the co-operative bank was not started merely as a convenient credit-pipe, to establish communication between capitalist reservoirs and non-capitalist dry places. Its cause is avowedly and necessarily the cause of thrift. Its accepted mission is, by means of thrift, to raise the comparatively poor, not only to greater competency but also to independence. The use of credit is in it really resorted to more as a means towards such end than as an end in itself. A powerful stimulus given to thrift may be said to be in it, of greater importance even than access secured to other people's money hoards. The thrift bank deals in credit, designedly as an inducement and a stimulus to thrift. Without credit business, it could not pay the same rate of interest. But, throughout their work, we find thrift impressed upon all this class of banks as a distinguishing mark, just as if the founders had foreseen and accepted in advance Mr. Gladstone's admirable principle: "it is self-help which makes the man, and man-making is the aim which the Almighty has everywhere impressed upon Creation. It is thrift by which self-help for the masses, dependent upon labour, is principally made effective. In them, thrift is the symbol and the instrument of independence and liberty, indispensable conditions of permanent good." It is as "compulsory savings banks" that Schulze-Delitzsch's co-operative banks first became known; and Luzzatti's are, by his own dubbing, "perfected savings banks," the majority of German Village banks are, not "Loan" only, but "*Thrift and* Loan Banks."

Now let us return to utilitarian reflections, and see what is to be said for thrift on such grounds in comparison with wholesale borrowing!

Chancellors of the Exchequer know well—we have their express avowals for it, Mr. Gladstone's at the head of them all—what a far more advantageous source of borrowed money savings deposits are than any other funds. It was "to make the Chancellor of the Exchequer independent of the money

market," to give him "a strong financial arm," that Mr. Gladstone called the Post Office Savings Bank into being. Thrift may be made to produce enormous sums, to levy which in the open market would cost something in negotiation and also in commission. The money which it produces is the cheapest loan money at all to be got. This latter point is of especial importance for People's and Village banks, because their particular object is to cheapen credit. And it produces what Mr. Meikle of Glasgow has, in a Savings Banks Inquiry, termed "good lying money"—money, that, as Mr. Gladstone has remarked in its praise, does not worry its custodian by going in and out, making calls upon him, or else overburdening him, both at inconvenient times. It lies firm.

On all such grounds, then, the collection of deposits—savings deposits—must for a co-operative bank stand first among the sources of money supply. For such banks—doing a business only just profitable, with a small stock of cash—the risk of withdrawals, and more particularly withdrawals in lumps, the inconvenience of dependence upon others, whose wants and caprices are not to be foreseen, are much greater and more serious than they can possibly be for a capitalist institution. In truth, drafts on capitalist money-hoards should, on prudential grounds alone, be kept in reserve only for temporary emergencies, to assist the bank—legitimately enough—in times of exceptional demand. M. L. Durand goes so far as to say that a Village bank obtaining money from outside sources (he is speaking specifically of credit allowed by a Central bank) should, so long as it is in possession of such money, consider itself in "hospital." The *ordinary* supply ought in any case to consist of—or at any rate to come to do so as soon as possible—money collected from depositors in the bank's own district, as an independent resource.

Not without good reason, then, did Schulze-Delitzsch lay it down, that the first duty of a co-operative bank must be to

possess itself of all savings obtainable within its district, to sweep that district clean and to prevent any savings from going elsewhere, be it into a stocking, or be it into a great financial "wen," that is, some great banking centre. If there are difficulties, it must adapt its methods to local requirements till it overcomes them. But, in any case, it must strive to become the recognised receptacle of the district, at any rate for "People's" deposits, so as to be as little as possible dependent upon the outside market, and at the same time, by attracting every idle shilling, to train and accustom people to banking habits.

There is ample evidence to show that, by active measures taken on the spot, deposit money may be obtained in sufficient quantities. M. L. Durand, speaking for his own districts, which cover a wide area in France, contends that it is an entire mistake to suppose that money is not sufficiently plentiful in country parishes, that rural credit societies have accordingly to go for their supply to towns, which are supposed to be more opulent. The system, invented in the South of France (and unfortunately viewed with some favour in certain quarters in India) of interconnecting town and country banks, making the former the reservoir and the latter the taps, is, accordingly, wrong altogether, and very likely to lead to trouble. There is plenty of money to be collected in country districts, so testifies M. Durand. Whenever one of his Central banks requires any, all that it needs to do to obtain it is to send out a circular to the local banks, and then, within a few days only, as a rule, it has to withdraw that notice, because supplies come in too plentifully. Things do not go quite so swimmingly in Germany. But in Belgium the Village banks formed by the National Savings Bank of that country actually take much more in savings than they advance in loans. Assuredly, there would be a good deal of money forthcoming also in the United Kingdom, were the co-operative method tried. In 1894, when we formed the little Village bank at Scawby in Lincolnshire,

one of the members, a working man, at once declared his readiness to withdraw his account—one of those lordly accounts of about £100, about which bankers and Chancellors of the Exchequer make so great a fuss, as if they proved that, abusing the facilities offered, Rothschilds and Carnegies were depositing their millions in the savings banks—from the Post Office Savings Bank, and transfer it to the co-operative bank. Even Central banks, on which at the present time so many longing eyes are cast, as if they were promising milchcows for necessitous cultivators, should be in the main, not tapping channels, but balancing centres, in which the overplus of one bank may be made to repair the emptiness of another. Co-operation is not tapping, begging, relying upon others, but producing, creating, establishing independence.

Now, if on the one hand co-operative banks stand in special need of the support of local thrift, on the other, it may easily be shown that, both in towns and in country districts, they find themselves in a peculiarly favourable position for promoting and stimulating such. And herein lies their importance for the United Kingdom at the present time, when our savings banks, however admirably administered, and however useful in themselves, are beginning to prove unequal to the great task set to them. (Further attention will be given to this point lower down.) Under such circumstances, co-operative banks may usefully be made to take up their place side by side with savings banks, as was indeed recommended by Lord Avebury in Parliament as long ago as in 1887, in imitation of what has been actually done, to very great public advantage, alike in Germany, where the savings banks envy the new comers, and in Italy, where they have warmly welcomed those institutions, which go on covering the unoccupied ground, inch by inch, attracting deposits, "drop by drop, as in a stalactite grotto," to quote M. Luzzatti's favourite simile. Both countries are the better for the presence of these popular thrift banks, and in both have they been found capable of accumulating

very large sums, which are now at the community's disposal for useful purposes, and which without them would lie practically idle. Like our own Trustee Banks in their favouring North, bidding against the Post Office Savings Bank—which in some places they leave "out of the running" altogether—co-operative banks have been able to offer, in addition to that valuable help of counsel and personal interest, which is so much appreciated by the poor, many new facilities for laying by, such as, in the judgment of so experienced a savings bank actuary as Mr. Meikle, constitute "the secret of success." More particularly as "collecting banks" have they proved superior to any similar institution. For they know the inhabitants of their district, they can get at them, they have influence with them. They have local public opinion with them, which is a powerful force in a small community. They may influence small folk to save and deposit when nobody else could.

As a rule, of course, co-operative banks, having a more remunerative employment for their money than savings banks—which, in the United Kingdom, are compelled to hand over all their capital to the State—are in a position to allow depositors a rather better rate of interest. That is an advantage which is pretty sure to tell. For it is a serious mistake to suppose, as official apologists of our State-governed system would have us believe, that the rate of interest offered makes no difference in the view of depositors. There are many instances in savings bank history to support my contention, that it makes a great difference indeed. Reduction of interest, or withdrawal of other favouring conditions, can be shown to have driven much money out of the bank, and, vice versâ, more favourable conditions can be shown to have brought it in. The latest instance which, in the course of my many inquiries—here, there and everywhere—I have come across is that of Dresden, where the city area has recently been substantially enlarged. As a consequence, what used to be villages outside the borough, and therefore not bound

by municipal regulations concerning deposit interest, have been brought under municipal authority; and the local savings banks have accordingly had to reduce their rate of interest to 3 per cent. Within very little time deposits were withdrawn in considerable quantities from such outskirt banks, to be carried further afield, where they once more earn the higher rate of $3\frac{1}{2}$ per cent, although perhaps the security offered may be argued to be not quite so good.

However, it would be a mistake to suppose that the co-operative bank rate is invariably higher than the savings bank rate, more particularly where savings banks enjoy full independence, and have accordingly as remunerative employment open to them for their money as co-operative banks. The main cause of the popularity of co-operative banks with the depositing public is, that they are the depositors' *own*, administered by themselves through their elected nominees, that in them the depositors may, so to speak, "see their money," and follow it through its further course of employment, watching the results which it brings forth under their own eyes. There is Loreggia money turned to account in Loreggia, Cremona money in Cremona. "But for this institution," so Sir J. Lumley quotes M. Luzzatti as saying, in the Blue Book already noticed *, "the whole of the savings of Lombardy would be concentrated at Milan." "The local Post Office Bank," so wrote M. Eugène Rostand after visiting such banks, "has few customers; as happens everywhere where the spirit of initiative is strong, these intelligent workers prefer independent private action to the action of the State, and realize the advantages which they derive from carrying their money to a place from which it will return to them as fertilising dew in the shape of loans or the discounting of bills." That is a distinct advantage. It is impossible to give full statistics, though a few will be quoted. But, indeed, statistics are not necessary for my argument. For the fact is not in dispute, that the amount of savings

* "Reports by H. M. Representatives abroad on the Systems of Co-operation, 1886."

money lodged in People's banks and Village banks is very considerable.

To go on with my argument, co-operative banks, more especially Village banks, are not by any means content with opening their office door and simply receiving what is brought to them, even though the bulk of their deposits may be taken in that way. Old, seasoned savers, broken in to thrift, will come to the counter surely enough, as they come to the savings bank, bringing their savings with them; and, with regard to such people the question that the bank has to ask itself is simply: how conditions may be made sufficiently attractive. Under such aspect, a maximum rate of interest, convenient office hours and facilities for withdrawal are the most telling points, apart, of course, from safety. Facilities to be offered for withdrawal should not be neglected. For prompt repayments, even where notice has been bargained for, are greatly appreciated, and well-managed co-operative banks are careful to provide for such. On this point, once more, I am sorry to see our English would-be organisers of Village banks swerve wide of the mark when insisting on the observance of notice. Their banks will not be formidable competitors to other thrift institutions, should they act upon such recommendation. But, on the other hand, it is of material advantage to the bank to have money deposited for good long periods—money that may be relied upon. And for such, as in all banking institutions, a somewhat larger interest ought to be allowed. Also, it is often found a help to introduce special savings sections for particular purposes, such as for receiving instalments towards maturing rent. Co-operative banks will allow a higher rate of interest for deposits so earmarked. But in candour it will have to be owned, that earmarking does not in all cases preclude abuse. I have found that the "savings department for rent" (*affitto*)—at four per cent—in an Italian bank, was used mainly by employees of the bank, who knew of the advantage offered, for quite ordinary

savings, independently of rent, which latter was put forward only as a pretence. Passbooks are generally issued "to bearer," which seems to be regarded as the most convenient form. And I do not think there is much fraud occurring on this score, even in populous districts, where the number of accounts is very considerable, and where people are not throughout personally known to one another. In villages fraud would be easily detected.

However, that is only half the collecting work which any active co-operative bank is called upon to perform, at any rate in country districts; and perhaps the less important half of the two. If they would be sure of gathering up all the spare money that there is in their district, and of training more especially the poor people to lodging it, co-operative banks must, like the king of the parable, send their emissaries out into the highways and hedges and "compel them to come in." They have to do so, in the first place, to get hold of the money, which might otherwise go unprofitably into a stocking, or else be wasted, or, in the best case, travel out of the district; and, in the second, to draw the unthrifty, or children, into their net, and systematically train them to thrift. That is one of the especial objects for which they exist. Germany is, in a manner, classical soil for collecting by collectors. The method was there in use long before there were co-operative banks to employ it. The large Savings Bank of Frankfort-on-the-Main has collected by collectors ever since 1826. And, wherever the method has been tried, it appears to have given satisfaction. In country districts there is now a great deal of collecting done, in the same way, by collectors, who scour the country, going from house to house, like the members of our most useful, but numerically quite insufficient "collecting banks," knowing at what times there is likely to be money present, and ready to snatch it up before the tempter has suggested another use. If they are sufficiently wide-awake, they will be present at the pay-office on pay-days, and very much in evidence on Sundays, outside the church and

elsewhere, before the week's wages are gone. They may even visit the farm servants in the farmyard, the labourer in the field, or the forest, and take care, generally, to be on the watch, with their out-stretched hands, wherever they may scent loose cash. As receipts collecting counters are used, sometimes metal counters, often counters of cardboard—the latter are now frequently made in the shape of railway tickets. There are counters of different shapes or colours to represent different values, which may be exchanged, the smaller for the larger, like the co-operative store tokens. Some societies carry them down to five pfennigs, that is, $\frac{5}{8}$d. Then there are other counters representing sixpence, a shilling and so on. Postage stamps do not abroad lend themselves as readily to use as instruments of thrift as among ourselves, because co-operative banks are not the Post Office, and could, therefore, not accept stamps gummed on a card as money. Special arrangements are sometimes come to with the Post Office to make postage stamps receivable. Thus it is in Italy. However, only one co-operative bank, the People's Bank of Bologna, which is ever to the fore in all provident work, takes advantage of this. In Italy there is, on the other hand, a difficulty in the way of halfpenny deposits, caused in part by the levy of $1\frac{1}{2}$ per cent made upon all deposits in other thrift institutions in favour of the Post Office Savings Bank. In Germany there is no similar obstacle to the collection of small deposits. And there, as an additional facility, imitation postage stamps have been tried. The old-age-pension cards have familiarised working folk with such all over the Empire. But somehow people do not take to them. Counters or tokens are convenient, more particularly in this respect, that they may be served out to representatives of the bank, schoolmasters and others, who subsequently account for them in money, or else in counters, so that there can be no doubt about the reckoning. However, they are easily lost or mislaid. In fact, so little are they liked, that, although introduced into use by savings banks as long as

twenty years ago, and readily taken up at first, they have recently dropped almost altogether out of employment in such establishments. In 1901, out of 3620 savings banks receiving-places existing in Prussia, only 323 issued counters or cards, and by their means collected in all only about £27,650. In co-operative Village banks, however, they are still much in use. Nevertheless I believe that I was right in recently recommending, * in preference to them, small deposit books, made out to particular persons, such as are usual in our penny banks. Books of this sort are not as easily lost as counters, and, if lost, may be at any time replaced, and cannot well miscarry. For, in a village, there can be no difficulty whatever about establishing the identity of a child, or indeed of anybody. And children like looking at their book, and watching how the "account" grows. Penny banks in schools are very much in vogue in connection with co-operative banks. They prove useful, of course, in proportion as the master takes an interest in the work. An active master makes a prosperous school savings bank. So greatly is the importance of training children betimes to thrift appreciated, that in Italy schoolmasters showing good results in this respect receive a special gratuity from the State. The matter of course has two sides to it. Children saving may mean parents worried for coppers, or larger coins, with altogether illusory results. On this ground, the important *Generalverband* of co-operative societies of the Raiffeisen type in Germany, of set purpose, up to quite recently discouraged children's savings banks, at school or elsewhere, holding such to be hurtful. That seems like the Duke of Wellington objecting in early days to military savings banks, on the ground that deposits from soldiers must mean that the men were overpaid. Apart from this one Union, which seems now to have changed

* "*Belebung des Sparsinnes und Förderung des Sparbetriebes*, Darmstadt," 1906: being four Prize Essays, issued by the "Deutscher Reichsverband ländlicher Genossenschaften" by way of instructions to its nearly 14,000 Village banks.

its mind, the importance of instilling the idea of thrift into young people, at a very early age, so as to make it breed a habit, is generally recognised and accepted as outweighing any possible drawbacks.

As a supplementary help to collecting by human agents, I have recently recommended to foreign co-operators a very convenient collecting box, which comes from the United States and appears to be in common use there—though there employed mainly by business banks, as a means of attracting depositors. In Europe it has already found its way into provident institutions in the United Kingdom and in the Scandinavian countries. In the latter, more particularly, among a population strongly disposed to thrift by nature, it has already become decidedly popular. It is known as the "Home Bank," and consists of a small iron box, or diminutive "safe," with an aperture in the side, through which coins may be slipped, dropping into an inner compartment, which is firmly secured by a catch. The box is served out locked, and the bank retains the key. The idea is, that people will slip in money when they have got it, and will then be prevented by the secure closing of the box from taking it out again. After a time they carry the box bodily to the bank (it is very small) to have the contents taken out and credited to their account. It says something for the thrifty instincts of human nature that very considerable sums are reported to have been collected in deposits in this way. In America it is calculated that a "Home Bank" collects annually, on an average, about £20, which, with hundreds of thousands in the hands of the public, means a good deal of money laid by. And it would be rash to assume that what is so saved is taken away from other saving. For the experience of savings banks is, that every new facility offered for thrift taps fresh sources. This applies more specifically to the thrift work of co-operative banks. In Italy, as elsewhere, I have questioned the directors of savings

banks respecting the effect upon their institutions of the opening o People's banks, with their large savings lodgments. And thes gentlemen have shown me from their books that the People's bank have not in any way trenched upon their own takings. The latte have continued to grow without diminution at the accustomed rate

Thus, in one way or another, the net is cast out which is t catch fish for thrift. And the closer are its meshes, the bette does it answer its purpose. Children are in Germany taugh to save up for their confirmation outfit, and, beyond that, boy for their equipment for military service, girls towards thei trousseau. Farm servants are urged to save up for their littl house and home of after-time. Indeed, in some instances, goo intentions have outrun wise discretion. Thus, in Germany where compulsion is generally believed in as a necessary of life and in the main readily submitted to, attempts have even bee made by well intentioned employers to compel servants to la by out of their wages. The methods in use for providing fo old age pensions and accident insurance may have suggeste this. It is a bad plan, which has not answered. To compe people, while under authority, is to dispose them to do th opposite thing once the authority is withdrawn. Moral suasio has proved far more effective. In a number of villages i Pomerania recently, there were found to be in the local Villag banks from 68 to 269 deposit accounts opened in each fo confirmation outfit—1227 accounts in all, representing 53,65 marks (£2,680). As for collecting by means of cards, in Hess in 1903, in a village with 1240 inhabitants, more than £1,00 was found to have been taken, in another with 2,260 populatio £2,106, in a third with 2,130 population £2,115, in anothe with 970 population £537, in one with 3,240 population £2,500 Since £25 or £30 will often suffice to purchase a small hous with a little land attached, farm servants find themselves en abled to lay by during service, even out of modest wages, wha will one day make them independent.

The amount of money collected in co-operative banks in the shape of savings deposits is, as observed, very considerable. And it has grown very fast. Unfortunately, the statistics published are scanty, and will not agree among themselves. According to a table published by *Die Sparkasse*, the accepted organ of German savings banks, popular savings have increased in Germany as follows:—

	31 December 1901.	31 December 1904.
In public savings banks	9,552,000,000 M.	11,185,000,000 M.
In co-operative banks	1,700,000,000 „	2,300,000,000 „
In insurance companies	1,927,000,000 „	2,358,000,000 „
In workmen's insurance funds (old age, accident)	931,000,000 „	1,287,000,000 „
In sick insurance funds	179,000,000 „	2,100,000,000 „
	14,289,000,000 M.	19,230,000,000 M.

Thus, within three years, savings deposits in co-operative banks appear to have gone up from £85,000,000 to £115,000,000, as compared with £477,600,000 increasing to £559,250,000 in savings banks, that is, at about double the rate. The total popular savings in Germany are in the above table put at £961,500,000. *

The *Blätter für Genossenschaftswesen* more recently gave the following figures. In the Schulze-Delitzsch Banks, savings deposits increased from 361,773,309 marks in 1893 to 636,328,574 marks in 1903; in Raiffeisen banks of the Neuwied Union, from 81,387,422 marks in 1897 to 192,653,973 marks in 1901; in agricultural banks of the Darmstadt Union, from

* The latest Report issued by the *Zentralgenossenschaftskasse* of Prussia, which acts in a manner as collective banker for all agricultural co-operative banks in Prussia, shows that this institution had about £50,000,000 of savings deposits in its keeping, for the account of such banks, apart from what they were employing in their own business.

65,837,336 marks in 1896 to 392,942,244 marks in 1902.* Here are 1,221,924.791 marks (£61,096,240) accumulated in the three largest Unions of Germany. To this must be added another 11,389,053 marks (£569,452), of which half was held in distributive stores and half in co-operative building associations. In any case, the sum of money collected is very large. £115,000,000 collected among 60,000,000 Germans corresponds to about £79,000,000 which might have been collected among the 40,000,000 population of the United Kingdom. And that money is not locked up in the Treasury, "bolstering up the funds, giving the Government the power of putting its hands into the pockets of the people, and enabling it to scourge the people," as "Currency" Attwood not inaptly described our process of putting all savings banks money into Consols, but it is at the beck and call of whosoever may stand in need of it for productive purposes and can make out a case.

The figures for Italy are less striking, but that may be mainly because they are less complete. They include only part of the *banche popolari* and not a single *cassa rurale*. And it should be borne in mind that Italian co-operative banks actually draw much of the cash which they lend out of the tills of the regular savings banks, which may, accordingly, be said to be, in a manner, doing the collecting for them. According to the official *Annuario Statistico Italiano* of 1900, which is the latest record issued on this matter, there were on 31st December 1898, in 507 (out of more than 700) *banche popolari*, in 297,990 accounts, 233,841,979 lire (£9,353,680). Considering the poverty of the country and the number of other receptacles for savings, that is after all not bad. The ordinary (independent) savings banks held, a year later, at the close of 1899, in 1,630,678 accounts,

* As is shown in the last Annual Report of the *Reichsverband*, savings deposits received in the two last named Unions now increase regularly by about £5,000,000 net a year. How does that compare with recent increases in our State-governed savings banks? And the membership of the two Unions is only some 1,750,000.

1,430,816,003 lire (£57,232,640),* and the Post Office Savings Bank on 31st December 1898, in 2,938,401 accounts, 462,413,311 lire (£18,596,532); and ordinary banks at the same date, in 100,570 savings accounts, 66,016,667 lire (£2,640,668). Thus there was in all about £78,500,000 collected, in addition to about £9,400,000 in *banche popolari*, and the unknown amount in other *banche popolari* and in all the *casse rurali*, to whose deposit-collecting capacity M. Eugène Rostand and Léon Say have both borne eloquent testimony. There is plenty more to be collected where that came from, and, in any case, these figures show that co-operative banks have a wide field to lay under tribute without any need of thinking of going to the capitalist provider of money.

Apart from proving—which is here my main point—that co-operative banks may find the collection of savings deposits a richly yielding source to provide the money which they want for carrying on their work, what has been said must also, I think, have shown what most serviceable and valuable machinery for the encouragement and practice of thrift co-operative banks afford, superior, to my mind, to Government-ridden savings banks, and also to joint stock institutions, which now so freely invite savings. And this merit, at any rate, ought to make them acceptable to those who, like the British people, still persist in believing themselves too well off to need democratised credit. It may not be amiss to add that every nation in turn, in which co-operative banks now flourish, has begun by protesting that it did not want them. Time was, in the same way, when we thought that we could do without railways and the electric light. However little we may think that we need democratised credit, there is no one who does not profess himself favourable to working men's thrift, even on a large scale. Now

* By the close of 1904 the amount had grown to 1,776,900,000 lire; and the amount of deposits in the Post Office Savings Bank had increased to 978,600,000 lire.

our British savings bank system is unquestionably admirable, as far as it goes. However, by reason of the very fact that it *is* a savings bank system, it necessarily labours under one great disadvantage, to which, by subordinating it to the Treasury, we have very unnecessarily added another, possibly still greater. The first disadvantage is, that our system, as a matter of course, employs one set of people to do for another set that which the other set ought plainly to be taught to do for themselves. It keeps them in tutelage. It takes their savings, and keeps them safe, on the whole; but it does not educate, it does not train savers to independence, to a knowledge of business and to self-reliance; it is not self-government. Now that may have been perfectly in place in the days of Priscilla Wakefield and Dr. Duncan, when it may readily be admitted that only very few of our working folk were capable of looking after their own savings, keeping them securely and investing them advantageously. But, even so, what happened subsequently has shown that the system was, as it needs must be, inherently imperfect, that there were flaws in it which called for further safeguards, further interference, and which, unhappily, even such interference has failed wholly to correct. It was for the reason here insisted upon. that Mr. Gladstone interfered, introducing legislation which has rightly been praised, but which also shows, by the very limits which it sets, by the supervision which it imposes, and the restraints which it provides, that we have here anything but an ideal—rather a very artificial and forced—system to deal with. After a time, the chosen guardians of poor people's money had themselves to be placed under guardianship. Inspection Committees were appointed, the Post Office was made a guardian. Then the Post Office itself had in its turn to be placed under guardianship. The Treasury from thenceforward grasped the handle alone. The machinery would not work smoothly; every now and then there was grit getting into it and stopping the wheels; if the belts were drawn too tightly,

trustees refused to act; if they were loosened unwisely, there might be loss to depositors. Accordingly, safeguard was piled up upon safeguard, restriction added to restriction, till we have arrived at an arrangement, which, however securely it keeps depositors' money, instead of urging the lesson to save to the utmost of their power, rather admonishes our people: be not saving overmuch! Lombard Street prophets are not wanting to press the lesson home. The Post Office authorities, animated by the same good motives as trustees, would wish to do their very best by the people for whom they are called upon to act as collectors. They are "very ambitious," so said Lord Goschen when he was Chancellor of the Exchequer in 1891; "the more business the Post Office transacts, the better satisfied are the officials." However, Downing Street steps in and forbids. "We do not want any more," so said Lord Goschen on the occasion referred to. Downing Street has dealt in the same way specifically with Trustee banks. The Act of 1903 has brought the latter some welcome relief; but, up to then, they were bound hard and fast. They would create facilities; they would dispose of inconvenient buildings, and fix their abodes in new centres, considered more convenient by reason of the shifting of the population; there have been cases when, thanks to good management, they might have given their depositors a little bonus. Once more Downing Street stepped in. The result is, that we have a system at which the Tariff Commission could point its finger of scorn. For, though its figures were incorrect, and it attributed the effect observed to an entirely wrong cause, the fact remains that we deposit less in our savings banks than do some of our neighbours, really less well off, in theirs, simply because Downing Street will not let us do as they do, that is, develop thrift freely; whereas they possess, by the side of less material prosperity, which is a drawback, a perfectly free and elastic savings bank system, which allows them to draw wider limits, if they draw any at all, and to earn, and therefore also to pay, a better interest—in

a word, effectively to encourage thrift, instead of forcing it into a narrow Procrustean bed with a limit of £50 at one end, a limit of £200 at the other, and a Damoclean sword of reduced interest hanging ever threateningly over its occupant's head.

There is no longer any need for such shortsighted begrandmothering as we are hampered with; and it is all the more injurious to the country, since our grandmother herself has shown herself very little solicitous about the grandchild and very selfish about herself. Mr. Gladstone himself, full of high moral sentiment as he was, has admitted in plain words that, for absolutely selfish reasons, he desired his Savings Banks Bill to be "passed *sub silentio*," because "a full statement of my expectations from it would have been absolutely fatal." In other words, he had an axe of his own to grind. "I had an object of first rate importance . . . to provide the Minister of finance with a strong financial arm, and to secure his independence of the City by giving him a large and certain command of money." That means that he wanted to make a convenience of the savings banks for the benefit of Downing Street. The depositors might look out for themselves. So it has been ever since. Chancellor of the Exchequer after Chancellor of the Exchequer has made broad his phylacteries and declaimed about his noble devotion to the cause of the poor, his self-sacrifice and munificence, he has even reminded the poor depositors that they are after all unworthy prodigals, for whom a fatted calf out of the taxpayer's stall is being periodically killed—and the elder brother, hailing from Lombard Street, has not been wanting, standing by and protesting against the unmerited favour shown to "this thy son." In *The Times*, of 2 August 1906, he goes so far as to claim that, since the Bank of England will not maintain a sufficient gold reserve to permit him to speculate and earn fortunes with a fully quiet mind, his poor neighbour's little ewe-lamb should once more be slaughtered for his own benefit, that is, that a gold reserve of some millions should be

provided out of poor folk's deposits, on which, as the *Times* will have it, "an unduly high rate of interest" is being paid, namely about $2\frac{3}{4}$ per cent. That is quite right from a selfish point of view. We have a poor devil to fleece for our benefit, and we will fleece him. In truth, the sacrifice has throughout been all on the other side, and it is the poor man's little ewe-lamb which has fed the rich Chancellor of the Exchequer. All along has the Treasury's interest been allowed to reign supreme. Mr. Gladstone and Sir Stafford Northcote have admitted what a boon the savings banks have proved to them. The inquiries of 1858 and 1889 told of "millions" by which the Treasury had been enriched. In 1891, when deposits grew inconveniently large, Mr. Goschen publicly scolded the savings banks for taking so much. "As Chancellor of the Exchequer, I am adverse to any measure which would largely increase the already gigantic amount standing to the credit of depositors." That was when savings bank deposits stood at £110,000,000. To-day they approach £230,000,000. However times have changed, and quite recently we have had Mr. Austen Chamberlain, as Chancellor of the Exchequer, reproachfully remarking that "the savings banks no longer afford us as large resources as formerly." No wonder, Mr. Chamberlain; you and your predecessors have worried depositors far too much! It is always the Chancellor of the Exchequer's interest which is considered. However, Mr. Austen Chamberlain is wrong in this reproach. The boot is on t'other foot. Were we allowed to deposit like the Germans, we should have found, as a counterpart to their lordly £600,000,000 in the savings banks, proportionately to our smaller population, a good £400,000,000 to stand at his disposal in the National Debt Office. Cancellarian selfishness has in fact over-reached itself. So it has been throughout. In 1896 the Treasury had about £1,600,000 clear profit out of the savings banks up its sleeve. But there was a tiny loss. At once it was suggested that interest should be reduced by $\frac{1}{2}$ per cent. On

£230,000,000 that would now mean more than a round million a year.

And the mischief is the greater because, in its wisdom, Downing Street sees only one way in which to employ savings bank deposits. Abroad, untold good is done by making deposits available for useful, fructifying purposes. The people's money is, in great part at least, employed for the people's benefit. It is made to set up workmen's dwellings; to settle small folk on the land; to fructify in productive employment. "How much could be done for the working man, if I could offer you £100,000,000 a year more for wages?" So asked Mr. Chamberlain the Labour Branch of his "Tariff Reform League," in May 1905. Aye, how much! Something under a thousand co-operative banks, of one type only, in Germany provide, as already stated, more than that £100,000,000—to go in wages and raw material, machinery, and tiding over of slack times. And Mr. Chamberlain sees the result, without detecting the cause, in the fierce competition which we have to endure. But, then, in Germany they have no Downing Street to reckon with. And Downing Street is, like S. Martin, *durus—durissimus—in negotio*, though far from *bonus in consilio*. * And it is not even always fair in statement, when, as in this instance, its own interest is involved. When it wishes, under the guise of "fluctuating interest"—which the evidence of practical savings banks experts given in 1858 has shown to have worked very badly in Scotland—to reduce interest, it gives it out that fluctuating interest has proved "eminently successful" in France †—where it has not yet even been tried! But who is, in England, to credit a fact, even though it be supported by the testimony of all the official administrators of savings bank money in France, when it comes into conflict with a statement from the Treasury bench? When, in 1890, representatives of Trustee banks pleaded for their old

* I retain the male gender; for instance see pages 97 and 113.

† Hansard, Debates, vol XCI, 1208, 25 May 1901, Sir Michael Hicks Beach.

accustomed practice of "special investments," which, in 1889, Sir Edward Brabooke had shown to have *never led to a loss*, the same Chancellor of the Exchequer ruled that that would be illegal—though Lord Herschell and Lord Macnaghten had both given a contrary opinion. * When questioned in the House of Commons about savings bank money being employed in Belgium and Prussia (with great benefit) for housing purposes, he pooh-poohed the question, on the ground of "no information," with regard to Prussia, and subsequently, in the inquiry of 1902, represented what is being done in Belgium—where 90 per cent of the value of the building is advanced as a matter of course, for long periods, on very easy terms—as "very much the same thing" as what is done by our own Public Works Board, which advances half, and less than half, under onerous conditions—provided always that Parliament have voted sufficient money for the year. †

There is one ruling passion in Downing Street. Good times or slack times, the money must go into Consols, to "bolster them up" unduly, as Attwood called it. Down as they are now, in 1902 the Comptroller of the National Debt Commission still deposed (Savings Bank Inquiry, qu. 3,278) that the command of savings banks money enables the Treasury "to borrow the money cheaper than they could in the open market." All fructifying use is forbidden. For the sake of a mere shop-window display of better credit, the nation must be impoverished, its interests must be damaged by money being withdrawn from productive use to be laid up in unproductive employment, remaining unfructifying, and only embarrassing Lombard Street.

Now, are the people who, reasonably enough, ask for the money out of their own accumulations, for housing and other public pur-

* Also, I believe, Mr. Gully, subsequently Speaker of the House of Commons.

† Sir Henry Campbell-Bannerman appears to have been equally unaware of the great difference subsisting between the two cases when, on 3 August 1906, he answered Mr. Money with regard to the Local Loans Stock. Our Local Loans Commissioners do, creditably enough, what they can; but they are hampered by regulations, and their assistance is of little benefit except to local authorities.

poses, for land settlement, and even those to whom Mr. Chamberlain appealed about that "£100,000,000 a year," going to submit to this indefinitely? It seems hopeless to convert the Treasury to more enlightened views. We should have to go to Brussels, to Berlin, or to Rome for such. The National Debt Commissioners have done much, by diverting savings bank money into public works loans. That most judicious move has enabled them, at any rate, to keep up the old rate of interest; but it does not quite represent what Mr. Chamberlain and housing reformers have been thinking of.

The working classes—who, as the increasing demand for savings deposits in the co-operative movement shows, are growing alive to the benefits, and even the necessity, of capital accumulation—have the remedy in their own hands. If the mountain will not come to Mohammed, Mohammed may go to the mountain. Lord St. Aldwyn has told them, when it suited his purpose—that is, when Consols were at "famine price" (April 16th 1896)—that they were "perfectly well able to take care of their own deposits and invest them to the best possible advantage." So they are. They have shown that in their friendly societies, their trade unions, their co-operative societies. Why do they not form their own savings banks, endowed with perfect freedom, under the Industrial and Provident Societies Act, in the shape of co-operative banks, which could deal with their capital just as they might please? "I maintain," so said the present Lord Avebury in the House of Commons, on August 16th 1887, "that savings banks have not been an unmixed benefit to this country. One effect has been to discourage the creation of workmen's banks and local banks, which would otherwise have been established. In Germany no fewer than 900 workmen's banks have been established, and hold large sums of money. They have proved a great convenience, and extremely useful to the community. Some years ago, it was in contemplation to establish banks of this kind in this country; but it was found to be prac-

tically impossible, on account of the fact that the Government did so very much of the banking business."

Since then the "impossibility" has vanished, not because Downing Street has grown more enlightened, but because the savings banks have filled to such an extent that one leading authority connected with their management has owned to me, privately, that he considers the capital which they send up to the National Debt Commissioners to be growing "too big." Besides, Treasury worrying, talk of reduced interest and the like have unsettled depositors. At the same time, our co-operators have, the same as their brethren abroad, grown alive to the advantage of accumulating capital under their own management. It has taken a long time to convince them of this. For it is many years now since, as a Leeds Redemptionist, the late James Hole, admonished them: your great need is "capital, capital, capital!" The stumbling block is, of course, the employment. There would be no difficulty about collection. And there is plenty of employment ready waiting: land, houses, and the like. However, land and houses are very inconvenient things in which to invest deposit money. For deposit money may be called in. It is so rarely indeed in co-operative societies. In their keeping, as a rule, it lies firm, and new deposits, steadily pouring in, overbalance withdrawals. However, it might be otherwise if it were to become known that much of the deposited money were locked up in permanent investments. Free savings banks and co-operative banks have been confronted with the same difficulty abroad, and they have met it in the manner which M. Lepreux, at that time Director of the National Savings Bank of Belgium, has explained in this country after practical experience,* and which, on the ground of theoretical doubts, Lord St. Aldwyn appears to consider objectionable, namely, by buttressing a fair proportion of their funds to be laid out in long term investments by

* See the "Report of the Proceedings of the Fifth Congress of The International Alliance at Manchester," 1902.

a larger amount of short term investments, which latter easily carry the permanent investments along by the force of their current.

Here is the solution of the difficulty! By the side of our old useful, but quite unduly Treasury-ridden savings banks, which no one will want to see abolished, since there must always be great use for them, we want free, unbound co-operative banks, to receive savings as well, as Lord Avebury has urged—savings to be employed in a very different manner, returning into productive use, stimulating employment, housing, settling, financing working folk, fructifying largely, and bearing "some thirtyfold, some sixtyfold, some a hundredfold!" Co-operators who desire to see co-operative savings departments established, need not fear that there will be want of employment for the money collected. There is sure to be plenty. Nor need our savings banks apprehend that, by the side of their younger sisters, they will find their occupation gone. In Italy and Germany savings banks still continue to grow, and those who are wise among their administrators rejoice in the fact that there is more saving in consequence of the co-operative banks having taken the field. Notwithstanding the increasing prosperity of its co-operative banks, Germany deposits, in its savings banks alone, its £10 per inhabitant to our £5. The need for co-operative banks as thrift institutions has come; the institutions should come as well.

CHAPTER VII

CO-OPERATIVE BANKS AS BORROWERS

HOWEVER energetically co-operative banks may gather up local savings within their own districts, there are pretty sure to be times, when, to be able to do justice to all claims legitimately made upon them, they will have to step outside their own narrow sphere, to obtain money from elsewhere. Provided that such borrowing is reserved for occasions of exceptional pressure, it is open to no criticism whatever, and it cannot be said to afford in itself any indication of weakness; quite the reverse. In co-operative, as well as in other banks, there are sure to be fluctuations in the volume of business, and demand and supply cannot be expected at all times to balance. Trade affects them, stringency of money affects them. Just as, on a memorable occasion, even the wealthy Bank of England found itself compelled to knock at the door of the Bank of France for a temporary advance of £3,000,000, even the very strongest of co-operative banks may, under stress of business—which is in truth an evidence of its utility—stand in need of drafts on the capitalist market. And means should be found for meeting such want, which at times may become urgent.

Unfortunately, quite apart from this consideration, calls are often enough made upon extraneous sources for money designed for a different purpose altogether. People show themselves anxious—it may very well be from philanthropic, altruistic motives; but unhappily motives do not affect business as such—to form a co-operative bank, but find themselves without money. Accordingly, they appeal to outside assistance, to provide—not a tempor-

ary addition only to what the bank has already got, but the very rootstock of capital for the bank, on which it is to form, and grow, and borrow more. Now it would be a hard saying that not under any circumstances will such proceeding be justified. We have, indeed, the examples of three great founders of co-operative banking systems before our eyes to support the opposite argument. Schulze was constrained, for his first co-operative ventures, to collect money among his friends; so was Raiffeisen; and so was M. Luzzatti. In the case of Village banks, formed on an unlimited liability basis, first help of some sort is often absolutely not to be dispensed with. I am aware that in hostile quarters this is frequently made a subject of reproach against such banks. However, I cannot for the life of me see what difference it makes whether friends of the Village bank movement give their guarantee, or deposit funds; or whether, on the other hand, M. M— F—, of M. Luzzatti's movement—to state only one instance brought prominently under my notice —takes up shares, at the rate of £20 here, and £25 there, in various newly formed limited liability banks, for the express purpose of assisting those banks in their youth. M. M— F— stands in no need of the banks' services. I do not believe that he ever troubles them with requests for loans. He simply takes up shares to help.

I would go further, and admit that in very exceptional cases—such as possibly that of India, where it is affirmed that in not a few districts saving is still out of the question—it may be excusable if public authorities intervene in the first experimental period, to provide a fund out of which to furnish money for starting co-operative banks. However, the presumption will always be against such pratice. The necessity will have to be proved. A very little State help may spoil a great deal of co-operation. It may be taken as a sound canon, that in economically fully organised countries public authorities should have *nothing* to do with the first financing even of Village banks; in unde-

veloped countries and poor districts, on the other hand, where the necessity of early assistance might be taken for granted, experience shows that, quite on the contrary, co-operative credit societies most readily take root, and flourish most, just because there is need, which nerves to a special effort. Ireland is a case in point, as compared with well-to-do England. The Village bank movement has rapidly taken root there, in contrast with its comparative failure among ourselves, not because there is more money in Ireland, but because there is less, and the want of credit is accordingly the more keenly felt. Supposing that there are not sufficient deposits forthcoming at once—as we have sometimes found to be the case in England—and that there is no Central bank properly to appraise the liability tendered, and legitimately to lend upon it, the first help required should, under such safeguards as may be deemed sufficient, be given by friends, not taken from public funds. Such friends may reasonably take the shape of a union of co-operative banks. In this matter, the useful example set by the Central Bank of Co-operative Credit Societies in Prussian Poland, formed on the most orthodox Schulze-Delitzsch lines, may be worth following. That Bank has set apart a special fund, now amounting to £10,000, for giving assistance to newly formed banks in their early struggles. I hold this to be perfectly legitimate; for Co-operation should be a propagandist force and finance its own propaganda. And it is certainly much to be preferred to State aid, among other things, because it helps without forcing. Under Government aid, public officers lay themselves out for creating local banks for their own sake, as a title to promotion, no matter whether such institutions are wanted in the particular localities or not. Now there can be no doubt that the command of public money may prove of substantial assistance in the manufacture of societies, ostensibly co-operative, providing official statisticians with matter for self-congratulation. Only, it is very seriously to be questioned whether the character of "co-operative" will in such cases go

with the name. Potemkin managed to fill the country, through which he conducted his imperial mistress Catherine, with what to the latter's delight appeared to be bonâ-fide villages. But those pretended proofs of national prosperity, after all, turned out to be only cardboard stage "property." And mere "property" co-operation could not by any possibility do a country any good. If, in a country newly embarking upon this movement, there *must* be a fund for endowing infant banks, let it be a specially subscribed endowment fund created for that purpose, with money voluntarily contributed by friends, by way of experiment. Then, if that money should be lost, no reproach could come home to anyone. However, it will be even better still if banks can be formed without such assistance.

Better service still, fitting in very well into the habits of our country, might possibly be rendered by guarantors brought upon the scene in the right way, namely not—as some people in England would have them—as privileged members of a bank, protected by limited liability, an aristocracy among members, but simply as what their name implies. A guarantee is in this matter better than a loan, because it leaves at any rate some sense of responsibility in the borrower's mind. He is the first to be asked for repayment. At the same time it in a greater degree disposes the lender to be watchful. It is one thing to lose money already given; another to have to part with what is still in one's pocket. Accordingly, a guarantee, given to a business bank, may render the co-operative bank the same help as a loan, while keeping it much better in hand, and imposing upon it from the outset the invaluable benefit of outside control and inspection, of the value of which I shall have more to say in a separate chapter. Guarantees, say, by Guarantee Committees, working in their own districts, where their members have some knowledge of local people, and their judgment is more thought of than the opinion or admonitions of a distant endowment bank, which has already parted with its money and

has thereby had its teeth drawn, might in this way be made serviceable, for the benefit alike of banks and of their well-wishers, for introducing from the outset a most useful safeguard, for which, in other countries, co-operative banks have had to wait till they had got a powerful union, and that union was in a mind to act in the direction indicated.

But to return to Central banks, our present subject proper. In any case, we shall have to distinguish between the two objects: the provision of temporary loans in times of active business, which is perfectly legitimate and not to be called into question; and the finding of the first formation capital, which may be, and very often is, open to exception.

It is my business here to deal with the former point. Evidently, if a bank is to be in a position to meet all legitimate claims for credit, even in times of very active business, it will want to have a door of some kind open, by which to obtain access to the great reservoir of capital. The need may be more imperative in the poorly endowed Village banks; it is sure to be larger in the banks situated in industrial centres. Pound for pound such need will probably be more difficult to satisfy in the former case, since the loans there asked are, as a rule, intended to run for long periods, and a long period is a terrible hindrance to ordinary commercial credit banking, even though the amounts be small. However, as we shall see, means may be found for meeting ascertained wants in both cases.

Naturally enough, under the circumstances described, local banks experiencing a want of more funds in the first instance attempted to meet it by independent action of their own, applying separately to business banks for credit. Something has proved practicable on such lines, but manifestly the difficulties in the way are bound to be considerable. The business status of a co-operative bank cannot, as a rule, be at all easily ascertained by a business bank. Its capital endowment is sure to be rather slender. The two institutions to be brought into

contact, moreover, trade by different methods and really move in different spheres, one might almost say in different worlds—so great is the difference—and can only with difficulty, if at all, be brought to understand one another. The obstacle has, nevertheless, in not a few instances, been surmounted in Italy, where savings banks, being absolutely free to do what they choose with their own, without fear of the Exchequer, and probably recognising themselves as cognate institutions to co-operative banks, bound to them by a solidarity of interest, have readily made their funds available, mainly by means of discounts. Useful as such assistance must have been, it does not appear to have fully satisfied all requirements arising; for in 1895, at the National Congress of Co-operative Institutions, we find a proposal brought forward, with the support of the leaders of the movement, to create a Central bank, which was to become the recognised business centre for all co-operative banks which might join it. Even before that time, the good example set by the savings banks had, as we have already seen, led not a few ordinary business banks to deal directly with co-operative banks, bank with bank, and by such means to furnish further relief. On the top of allt hat, the powerful Co-operative Bank at Milan, disposing of a large capital and doing an enormous business, had in a measure constituted itself, quite independently, a Central bank for, I believe, about three hundred local banks, which had opened accounts with it and found such service a considerable convenience. Strictly speaking, it was still in each case one bank dealing with another; for the Milan Bank was altogether independent of its co-operative clients. But practically here was the service of a Central bank already provided.

In Austria, likewise, co-operative banks at an early stage occasionally sought help elsewhere, dealing in this matter with one another, so far as means would permit—which was not very far. But this was rather a balancing operation than tapping the market.

All this had its uses. But the fit continued a tight one, and the cloth would not give out. The main difficulty still was, that the co-operative banks and their security were not understood by the capitalist market. Under such circumstances a simple, but not altogether unobjectionable, device was, quite naturally, resorted to. Wealthy individual members of a bank were asked to go bail for the bank in its credit operations. In Village banks that is, of course, the only way open in the days of early weakness. And, although opponents of Village banks have not been sparing in their criticism on that score, Schulze-Delitzsch banks, as Herr F. Thorwart has shown,* in their early days, proceeded in precisely the same way, obtaining the endorsement, so to call it, of members of their own, of good financial standing, for the advances which they asked from business banks. So there cannot be so very much amiss in the method. But it is not by any means an ideal one. For it means placing the bank in dependence upon those who go bail for it, and who thereby become the real lenders, rightly claiming, in their capacity of lenders, special privileges in the way of supervision, inspection, preferential position and the rest of it, like mortgagees. While their prerogative lasts, the bank is, so to speak, kept under guardianship and not fully mistress of its own affairs. On the other hand, all preferential rights conceded notwithstanding, it is rather a good deal to ask of members to become sureties for their bank.

Accordingly, since a long time back, co-operative banks of nearly all types, countries and connections have considered means of acquiring independence by other methods. The first expedient tried—specifically in Germany—was that of a voluntary arrangement with some great business bank, which was to undertake doing the co-operative banks' business—taking all their surplus cash, and discounting their acceptances—at

* See my abridged translation of his treatise in the "Report of Proceedings of the Sixth Congress of the International Co-operative Alliance," 1905.

rates of commission fixed by mutual agreement. This looks like an easy and sufficient business device. But it is not really so. Schulze-Delitzsch managed to conclude such an arrangement in 1859, and no doubt his banks found it a material help. However, it proved both too troublesome and too insecure to answer for long. The arrangement was, of course, subject to notice. And, as a matter of fact, it had from time to time to be transferred to new houses, which was not exactly convenient. Moreover, in the discounting bank's interest, every single transaction was distinctly made subject to the explicit approval of the President of the Union. There was no possibility of continuing this, once the business had acquired substantial proportions. There is also the consideration of absolute security for the local banks' deposits to be taken into account. For business banks, though safe enough to borrow from, may not in all cases be safe enough to lend to. Accordingly, the co-operative banks very accountably grew tired of the arrangement, and began to think of means for satisfying their wants by the expedient of further combination.

Very nearly the same change of feeling was brought about by very similar experience, and led to distinctly satisfactory results, within a more circumscribed area, among the excellent co-operative banks of Prussian Poland, which, though forming, for reasons easily to be understood, a Union of their own, are in respect of organisation, methods of business and all that gives a co-operative bank a typical character, altogether of a piece with the Schulze-Delitzsch banks. They had first come to an arrangement, like Schulze-Delitzsch, with a business bank—a Polish one, of course—for banking services, and had found such services insufficient. Accordingly, they decided to form a Central bank of their own. That Central bank still exists, and to all appearances answers its purposes well. Its formation raises the question of the various uses that a Central bank may ~~to~~ be expected to serve.

The first motive to prompt co-operative banks to combine

to form Central banks—it does not matter a jot whether such are central for a whole country, or only for a "region" or province—is, of course, the desire to make the most of the means already at their command, by regularly balancing surpluses and deficiencies existing in the several localities, so as to turn the abundance of one to account to supply the deficiency of the other. Unquestionably useful service may be rendered in this way, and, accordingly, we find the method generally resorted to in all unions and accepted as the main, if not the sole, business of a co-operative bank in at any rate two co-operative unions, and found sufficient. In the French *Fédération des Caisses Rurales et Ouvrières,** so its President M. L. Durand declares, balancing of excess and deficiency is all that is wanted, and it answers so well, that whenever a Central bank happens to be in want of cash, all that it needs to do is to send out a notice to the local banks, in reply to which it receives as much as it can do with from their deposits, as a rule in a couple of days. In the same way the Central Credit Bank of the Belgian "Boerenbond" finds that deposits, when equalised, fully meet all its wants for loans. Indeed, it appears a trifle encumbered with excess of deposits. That seems to be characteristic of its country. For precisely the same thing happens in the Village banks promoted in Belgium by the National Savings Bank. It means, that either the peasantry of France and Belgium are wealthier than those of other countries, and accordingly stand in comparatively little need of credit; or else that they have not fully learnt the use of the latter. It is not for me to determine which is the right explanation. But I may add that in some other countries as well, as thrift is more systematically extended, deposits are found to increase more rapidly than credits. However, this is far from being the general experience.

* See M. Durand's paper on Central or Regional Banks in the "Report of Proceedings of the Sixth Congress of the International Co-operative Alliance," 1905; and also his admirable article in the *Bulletin Mensuel* of his Union for March 1906.

There are other reasons which make mere balancing insufficient. To begin with, the loan of mere temporary overflow funds of necessity provides the borrowing banks with a most insecure possession. The lending bank cannot, of course, tell at the outset for how long it will be able to spare its money. How then is the borrowing bank to insure to its own borrowers the use of that money for any definite time? But, in addition, the cash thus made available will not suffice, at any rate while co-operative banking is a growing and daily expanding force, in which demands for credit grow out of all proportion to the supply of deposits. Once it has reached its ultimate limit, the movement may no doubt, become self-sustaining. It is not yet so at present.

People were accordingly compelled to look further. And they naturally looked in the direction of a Central bank, so contrived as to serve, not indeed as an ultimate source of funds in itself, a self-sufficing reservoir, but rather as a convenient conduit-pipe to facilitate the passage of funds to and from the capitalist market. That is plainly designed as its task and its object. It is, so to speak, to be the representative and agent of the local banks in the money market, and there to make their security understood and accepted.

If it would do this, the first thing needful is that it should, on its own part, carefully adapt itself to the rules, methods and usages of the capitalist market, so as to become a recognised part of it, and to be able to deal with business banks on a business basis. Albeit its special mission is to represent specifically *co-operative* banks, it will, for its own part, have to become, as far as is practicable, a *business* bank. In one of the two instances to be dealt with, it represents very moderate cash security, in the other merely liability. Under the circumstances of the latter case liability is likely to be sufficient, but only up to a certain point. I assume that there is plenty of good security mortgaged, and for such the Central bank, if it secures a good

standing, ought to be able to obtain value in cash. But that will only go a certain length. Accordingly, the Central bank will, if it does its duty, have to make a point of itself accumulating capital up to the limits of its capacity, and of encouraging the accumulation of capital in its constituent banks. In its own market nothing is so well understood as the security afforded by capital, and it scarcely needs to be repeated, that the special object of the banks for which it acts is to promote the creation of capital among those who, for want of a sufficient quantity of it, resort to them.

Once more, the Central bank will necessarily have to throw overboard some of those features generally specifically identified with "Co-operation"—above all things, where that is otherwise usual, unlimited liability. Unlimited liability is altogether unsuited for such an organisation as a Central bank, because it leaves so much uncertain. The Central Banks of Neuwied and Darmstadt formed at first under unlimited liability, but only because they could not in the matter help themselves. They considered it imperative to form under the "co-operative" law, and that law at the time allowed no limited liability. As a matter of fact, it is perfectly immaterial whether a Central bank be formed under the "Co-operative," or under the Companies Act. The Co-operative Act in this country offers certain advantages, apart from cheapness, which may be an object in themselves, inasmuch as the Act leaves the amount of authorised share capital undetermined, and provides for more democratic government and more searching control, which are in its case most desirable possessions. In the United Kingdom, the Co-operative Act gives actually all the powers required for limited liability banking, as is most conclusively proved by the fact that several ordinary business banks of the less pretentious sort have registered under it, and found no hindrance to arise from such registration. However, wherever the Companies Act appears to offer greater advantages there is no reason why it should not be resorted to.

Since co-operative banks in point of organisation differ so materially among themselves, it follows almost as a matter of course that on their co-operative side, so to call it, the side turned to their co-operative constituents, Central banks formed, so to speak, to crown either edifice, will of necessity have to follow the lines and style of the particular structure upon which they are to be made to rest, and accept essentially the distinctive features of each, in regard both to organisation and to methods. Once more, there can be no legitimate ground whatever for wrangling and mutual criticism over this, although it actually has given rise to a great deal of violent contention. It seems to stand to reason that banks working in populous industrial districts, doing a brisk and bustling business, mainly of a commercial character, with bills of exchange from third parties passing backwards and forwards in large numbers, current accounts by overdraft or deposits in common use, deposit warrants freely pledged, and all the rest of it, developing moreover most unequally, some to huge dimensions, others remaining small, require an essentially different type of central institution than the modest little Village banks, homogeneous in character throughout, homogeneous in business, whose credit transactions consist almost exclusively of mortgaging ascertained liability, to obtain money all of them in the same way, that is, by means of loans running for long periods—which banks are, in addition, so effectively brigaded together in sections and unions and so on, with recognised and trusted delegates to represent them in every grade, as if they represented a revival of the ancient Saxon "view of frankpledge." In the former case, greater banking skill, much greater independence in administration, and independence also in liability, will be required than in the latter, in which the federal character of the organisation, gathering power and liability together from the bottom to the top, as in a pyramid tapering to its apex, make a strict application of the representative and federal system,

subject to review by the constituent units, easily practicable. All the fierce argument and bitterness spent in criticism of either side by the other is really wasted.

Even within one form of organisation, the ready money bank, which some people call "urban," variety of method has proved practicable and, possibly, of advantage. The Polish banks, already mentioned, proceed naturally, and in their case probably with good judgment, on the simplest lines of organisation. Acting in a circumscribed sphere, thoroughly self-contained, but also thoroughly self-sustaining, they can afford to do so. The remarkable patriotic zeal which Slavs bring to every kind of co-operative enterprise, more particularly where they are surrounded by Germans, and apt to be contrasted with them, may account in a large measure for the success which they have actually obtained in their Central bank, "Bank Zwiazku Spólek Zarobkowych," of Posen. Such zeal is really admirable. It says something for Co-operation as a natural refuge for the suffering, that so many humbled or conquered races have turned to it instinctively, to find in it a solace in their trouble. The defeated Danes have sought happy oblivion of painful defeat and humiliation in agricultural co-operation, and have astonished the world by their success. The Finns have acted in like manner, from like motives, and with the promise of similar results. In the Polish, the Czech, the Slovenian provinces, the Slavs of various races of the common family devote themselves to Co-operation with so much fervour and natural aptitude, that in Austria Herr Wrabetz periodically holds them up as models to his own countrymen, with a sigh of disappointment at the slower pace of German progress. The "Bank Zwiazku Spólek Zarobkowych," which answers its purpose well, is a bank formed as a joint stock company, in the main by local banks, which hold seven tenths of the share capital (there is £100,000 in all) in £10 shares. It is intended as their own proper institution, and the barely 30 per cent of

share capital not subscribed by them has been taken up by well disposed individuals, avowedly as a help, to make up the requisite capital—not by any means to give the bank the position of an institution independent of the local banks, though from business considerations it is of course administered by its own Board with the liability all its own.

Useful as this system has proved in Poland, for a large and active Union, like that of the German banks of the Schulze-Delitzsch type, it was not judged adequate. For his own societies, far more numerous and in some cases very important, Schulze-Delitzsch, as results have shown, rightly held that a different organisation was needed.

It deserves to be mentioned that in Italy, when the question of forming a central co-operative bank by combination of local banks was brought forward, an objection was raised on independent grounds, which is very similar to that persistently urged by Schulze-Delitzsch and his friends. The late Arrigo Valentini, as I have already explained, confided to me that the scheme miscarried, because such well managed and thoroughly solvent banks as his own could not consent to keep a common purse with the many indifferent and even faulty banks, nominally of the same class, which exist by their side. Very strongly did they feel, that not only common liability, which might land them in serious predicaments, but even common administration, which might divert common funds into improper channels, must at all costs be avoided. Really, in Italy, Schulze-Delitzsch's postulates were by that time already being fulfilled; since the Milanese *Banca Popolare* acted practically as an independent Central bank. The example of the National Bank in Belgium, providing for local banks as if it were a Central bank, is another *ex post facto* argument in favour of Schulze-Delitzsch's proposal. That proposal was, that a Central bank for *his* societies—numerous as they are, and doing a large commercial business—must be an institution *entirely independent*, non-co-operative, with a share

capital, administration and liabilities all its own, the latter being independent of and, unchecked by, the local co-operative banks, but bound to them by special links. Of such links the subscription of a fairly substantial *part* of the capital by the banks was to be one. That capital was to serve the Central bank as a pledge that business, such as it needs must look for and bind to itself as securely as could be, would be brought to its counters; and also as a pledge to the local banks that the undertaking given to them to receive *all* their surplus deposits at interest, and to provide for *all* legitimate claims for credit preferred by them, would not become a dead letter. Being well represented in the General Meeting and on the Board of Management, and commanding a substantial proportion of votes, the local banks would at all times be in a position to enforce the execution of the undertaking.

Schulze wanted the local banks to subscribe *part* of the capital as a pledge. Without their doing so, he would not agree to the formation of a Central bank. For, though independent in management and responsibility, his Central bank was not to be a wholly distinct institution, like the State-endowed *Zentral-Genossenschafts-Kasse* of Prussia, subsequently formed, or the State-endowed Central bank at one time planned in France, with totally different objects and interests. It was to have its specific object, so to speak, indelibly impressed upon it. To ensure this, the co-operative banks must take their part in forming the bank, but only their own part. They could not be asked to subscribe the entire capital. Their characteristic position was held to preclude this. They are societies composed of men who have themselves little capital to spare, and therefore combine to obtain the use of it by collective means. They represent want rather than cash. It is their want of cash, once more, which prompts the local banks to seek support from a Central bank. Then, how are they in their comparative poverty to find sufficient share capital to start it with on a

strong and secure basis? They want to receive capital from it, not to put capital into it.

There is a further consideration. Co-operative bank business is very steady and very safe. But it wants to be transacted at a minimum cost, and therefore can yield only a small profit. That is the universal experience. Wherever a bonâ-fide co-operative Central bank exists, purely for the purpose of focussing co-operative societies' business, gathering their joint liability together, and mortgaging it further in the capitalist market, such business will suffice, because the whole thing really is not banking. Where, on the other hand, genuine banking is done, a good deal more is required, or the flow of money wanted will not be forthcoming. Every one of the Central banks hitherto formed under such conditions, from the Polish bank forward, has found it distinctly necessary to do other business as well, in order to keep "the pot boiling." Co-operative societies' business is a capital *addition*, where there is other business. However, the very undertaking given to do it at minimum rates makes it desirable, if not indispensable, that there should be a good flow of other business to earn a dividend and keep the bank in strength.

The proper Central bank for busy co-operative banks like those of the Schulze-Delitzsch type, accordingly, will under all circumstances be, as Schulze himself concluded, an independent bank, sufficiently strong in capital, directed by its own expert administrators as a distinct institution, with its own interests, and free, without involving the co-operative societies in any liability, to transact whatever banking business it may desire or please, at its own risk, and on its own responsibility.

Such a bank was actually formed at Berlin in 1864. It has grown and extended its business, and has, all things considered, answered its purpose admirably.

It was formed at first with only £40,000 share capital. That capital soon grew to £1,800,000. And business increased pro-

portionately. In 1903 the business done, with co-operative societies only, amounted to £27,964,320. The bank has in fact more than answered all the local co-operative banks' expectations. It has never failed to provide the money which they could justly claim. And they have in some cases asked for and received more than on strictly co-operative principles one has liked to see. It has adapted itself to the varying conditions of various markets, discounting bills in the North of Germany, making advances by means of its own endorsement in the South. It has done more. In cases of crisis, when large local banks—which had, contrary to co-operative principles, been imprudent in their lendings—were threatened with liquidation, it has effectively stepped in, as the Bank of England did at the time of the Baring crash, to ward off disaster. And it has rendered a most valuable service, not to co-operative banking alone, by organising its *Giro-Verband*—a "clearing" union, not merely for cheques, but in the first place and above all things for bills of exchange. No other body in Germany but the Central Bank could have done this. But its advantages are apparent at the very first glance. Here are a large number of local offices—at the present time there are more than 1200—ready at all times to give information and to collect money on reciprocal terms. For a trading community the service is invaluable. It is rendered at a purely nominal cost, and well. Many a bad debt has been avoided by its means. And many a "long firm," dealing in bogus bills, has been unearthed and hunted down. Even the mere clearing of accounts in a common pay office has been found a substantial advantage.

The bank has of course transacted business with each local bank strictly upon business lines. It has met co-operative banks as it would have met other customers, but never by sacrificing safety. Unfortunately after a time it fell a victim, like other financial institutions in its own country, to the megalomania and eagerness for prompt and large gains, which are now so prevalent in Germany.

Anxious to maintain, and, if possible, to improve its position, it thought that it must do as other banks do. Now, other banks in Germany openly call themselves "speculation banks," and company promoting and similar speculations are what they at present mainly live upon. The *Deutsche Genossenschaftsbank* was admirably fitted for steady-going, humdrum business, such as that of co-operative societies. It was not at all adapted, as is now admitted, for speculative ventures. Accordingly, things went wrong and it lost heavily. However, none of those losses arose from the co-operative business. After sacrificing much money in this way, the *Deutsche Genossenschaftsbank* wisely determined to confine itself once more to ordinary non-speculative business only, and accordingly reduced its capital to £1,500,000. No doubt, under such conditions, it would have gone on rendering the co-operative banks admirable service, as before, even though its shareholders' dividends might have been small. However, at that precise moment a welcome offer was made to it, to amalgamate with one of the most powerful banks in Germany and, since a distinct pledge was given that co-operative business should be done full justice to as heretofore, it decided to accept. That bank, accordingly, now continues to act for co-operative banks with, as will have to be admitted, greater power for good, inasmuch as its resources are incomparably larger. Practically speaking, there is no limit to its supply of cash. It is to be hoped that it will remain faithful to its undertaking. But as regards that, as a matter of course, amalgamation with the larger bank has not a little altered the position of the co-operative banks as shareholders. From being a majority, or at any rate a very substantial fraction of the whole, with their own men alone at the head of affairs, they find themselves reduced to a minority, with an insignificant minority of their men also on the Board, and if, by any chance, the bank should not choose to keep its promise, there will be no one to compel it to do so. Probably it will keep it for

its own sake. In that case its example may prove useful, for it will show that in the opinion of some of the very best business bankers there is no ground for the apprehension frequently expressed, that co-operative banks come into the field of business as competitors to business banks, but that they ought to be regarded rather as welcome feeders.

Here we have a type of a Central bank which the results obtained entitle to attention. For Share banks with an active industrial connection I do not think there can be a better. *

Scene and conditions appear entirely to change, when from this busy bee-hive life, a very ant-hill of restless movement, we turn to the restful calm of Village banks. One of the most striking features distinguishing these is the remarkable uniformity and homogeneity of their business. It is like a calm, still river, flowing placidly along amid fields, all of which it benefits in precisely the same way—as contrasted with a rushing stream, impetuously carrying its volume of water down precipices and inclines, moving countless wheels, which keep flour mills and factories busy, manufacturing "white coal," and, it may be, pumping water out of mines. The whole thing becomes so simple. Banking here practically means only mortgaging ascertained liability, under conditions which give to the mortgage issued a certain justified currency for obtaining cash, to be employed, all of it, more or less in the same way. Every loan is traceable, every sovereign is recoverable by liability well brought home. There are no bills of exchange representing claims against third parties. There are, indeed, as good as no proper bills of exchange at all. Liability is sufficient for all purposes required. Everything is under observation, and their own interest involved ensures that the observers will be watchful. As in the business transacted, so in the organisation adopted, there is general

* For particulars relating to this bank see my abridged translation of the interesting monograph upon it, contributed by one of its directors, Herr F. Thorwart, to the "Report of the Proceedings of the Sixth Congress of the International Co-operative Alliance," 1905.

uniformity. Everything is small and everything is more or less alike. There is the little parish society, the provincial section, which embraces a large number of such petty units, organised in precisely the same way, and the national union encompassing them all. Organisation is the same everywhere, and the principle of representation is easily carried up from bottom to top. There can be no difficulty here, such as I have instanced in invoking the name of my friend, the late Arrigo Valentini. The members of the Village bank are comparatively few in number, they deal in small sums of money, but they are all in touch with one another, they all take an equally active part in the doings of their own society, and their delegate is a bonâ-fide delegate, entitled to and enjoying their full confidence, and therefore well qualified to represent them with a free "mandate" in a central society. Therefore one society is likely to be as good as any other society, of which, indeed, it is the exact counterpart.

Where there are such conditions to deal with, a Central bank may well be formed on the principle of combination, as first conceived, that is, as a bank purely of banks—it may be, admitting some individual members to swell the capital, but nevertheless a bank distinctively of the local banks' own, and intended purely for their own particular service. To its funds each local bank will contribute its own share, so as to make up the share capital, which should be paid up as quickly as possible. The business to be transacted is, in character, still precisely the same as that which is transacted in the local banks; it consists in finding a market for liability pledged, and distributing the equivalent received. Accordingly, there are no third parties to deal with. An elected Board, representing the various sections, will be fully equal to the task of supervising the administrative work of skilled managers.

I cannot, therefore, help thinking that Raiffeisen was right when organising his Central bank as he actually did, making it

a peculiar possession of his own union of local banks, a co-operative society of co-operative societies. It at once became a real focussing centre, and so did the various Central banks organised in imitation of it in other quarters, and most notably in what has since become the great "Imperial Union" of agricultural co-operative societies, having its headquarters at Darmstadt. The difference in organisation between the two is that, whereas the Central Bank at Neuwied was always conceived of as the *one* centre for the Union, to be surrounded with *branch* banks in various parts of Germany (there are now twelve), dependent upon it as the supreme directing head, the Central banks in the other Union, which had, under the moderating influence of Schulze-Delitzsch, gone a little further towards accepting a share basis, and had in addition decided in favour of decentralisation, were intended to act in entire independence of one another. There are now twenty such Central banks. And there are, in addition, in Germany, six, similarly organised, for distinct smaller Unions.* (There are similar Central banks also in Austria.) The difference, accordingly, is in the main one of centralisation or decentralisation, for either of which there is a great deal to be said. Centralisation of course ensures more complete union, and above all things—this was probably Raiffeisen's main object—uniformity in fidelity to the cardinal principles of the Union. We know that a Raiffeisen bank is intended not merely as a dispenser of material good, but also as an educator and organ of neighbourly love. Viewed from this point of view centralisation certainly is an advantage. But in business matters it makes things a little unwieldy.

Under the law as it stood before 1889, Central banks in both Unions, to be "co-operative" banks—as they held it

* Since the amalgamation of the two great Unions, the Central Bank of Neuwied has, in a manner, become the common centre for both. However, the "Imperial Union" Central banks continue to do business as before. It is not quite easy to discern to what extent in the enlarged Union services are kept distinct or else united.

to be essential to be—were under an obligation to pledge their members to unlimited liability. They felt this as a serious drawback, but it could not be avoided at the time. After a difficulty which had arisen on a question in Parliament, both went into liquidation, and practically reconstituted themselves as limited liability joint stock companies, which altered form now fully answers their purpose. Central banks, created after 1889, have, as a rule, registered as limited liability co-operative societies. It really matters very little what form is selected, nor does it matter whether the Central bank admits shareholders who are not co-operative societies. Both banks did so at first, to secure sufficient funds. However, the individual shareholders have in the one case altogether, in the other for the most part, disappeared.

It is of far greater importance to insist that, unlike the *Deutsche Genossenschaftsbank* already spoken of—which was an independent bank with independent membership—a Central bank of this description must not do credit business with outsiders, to whatever extent it receive deposits from them. Its entire constitution, object, and system of administration militate against this. It can have no independent status, but can only be the main feeding-canal for this net-work of irrigation-ditches.

As balancing centres these Central banks have answered their purpose admirably; also as links or conduit-pipes connecting the co-operative with the business market, so far as their credit admitted of this. There has been some difficulty about obtaining money at times. More will be said about this.

But the most troublesome work was, of course, the devising of a standard by which to measure every local bank's title to credit, independently of special security given. The only method possible under existing circumstances proved to be one which, outside Germany (and Austria), is scarcely likely to commend itself to approval. It was that of asking for a return of each member's estate, to be checked by the official assessment for income tax, or for the supplementary tax of the enormous propor-

tion of members of such societies who, returning less than £45 income, are not liable to pay income tax proper. To ourselves that method is likely to appear deterrently inquisitorial. But, as it happened, there was no other available, and, on the whole, among patient and submissive Germans, who willingly cotow to brass buttons, and unobjectingly accept even very troublesome regulations stamped with the imperial eagle, it has worked smoothly, and the valuations obtained—which have proved useful to the local banks as well—have given the Central bank a trustworthy clue to the liability which it might accept as pledge. In respect of the eleven local societies which first joined the Neuwied Central Bank, the mean figure of pledgeable possessions of each, that is, of its members, was returned as £50,000. Of course only a comparatively small fraction of such gross amount was accepted as a standard for credit.

The Central banks as a matter of course had to call upon the local banks, for which they were to act, to take shares in their own business, so as to provide a capital to start with. They could easily and legitimately do so; for their case is, under this aspect, entirely different from that of the Share banks already spoken of. The share required is small, and it really represents liability converted into money. There is, generally speaking, no compulsion to join for societies which merely form part of the Union; but the granting of credits is pretty well everywhere made dependent upon the holding of a share or shares, the number of which is regulated in proportion to the credit asked—which shares are wisely made non-withdrawable, and transferable only by consent of the Board. This has led to the raising of substantial share capital.

Outside money, as observed, was not always easy to be got. Private or joint stock banks were appealed to with more or less success; but such lending was not thought to be quite the business for them. The "Imperial Union," having been organised partly in alliance with Schulze-Delitzsch—who through it

endeavoured to make the Raiffeisen system a little more like his own by prescribing shares—obtained a certain amount of credit, as a favour, from the *Deutsche Genossenschaftsbank*. A Rhenish Union, which is very well organised and carefully managed, obtained useful financial support from the bank of the Rhenish "Estates." The Raiffeisen Union was, after some time, fortunate enough to become a party to an arrangement with the Imperial Bank (so to call it, the "Bank of England" of Germany), in virtue of which it obtained from that great national institution, not only a substantial amount of credit, but credit on preferential terms. And the President of that bank, Dr. Koch, has borne witness publicly in Parliament to the utility of the arrangement either way. More particularly in view of the subsequent development, under which this business was handed over to another institution, likewise formed by the State, I cannot help suspecting that in acting and speaking as he did, Dr. Koch judged rather from a national and patriotic, than from a strictly banking point of view. Even so, the fit soon proved to be tight, for the wearer of the coat kept growing very fast. Some Central banks, however, managed to obtain further support from outside banks, to an extent which enabled some of them to act merely as counting houses. They tested the local banks' security and kept all the accounts, making themselves the clearing office for all this business, but drew by arrangement for the money required on the other (outside) banks, and also had all surplus deposits paid into them. This proves, I think, as well as anything that can be adduced, that, however small may necessarily be the profits realised on co-operative banks' business, nevertheless the business, being steady and safe, is worth having for a financial institution sufficiently strong.

Under such circumstances, though they still called for improvement, the Central banks proved unquestionably valuable helps to the local unions, in this respect among others: being

able to judge of a local bank's "capacity for liability," as it has been technically called—being able, in other words, to appraise the security which the local banks had to offer—and having money at their command, they could step in to set a newly forming bank upon its first legs. They could easily, and, without risk, find the first loan capital for it to begin work upon. This is, as I have already taken occasion to urge, an even better form of finding the first capital than deposits or guarantees from patronising private individuals; for the Central bank is far more likely than such person to hold the bank to its duty. * Newly formed local banks have accepted such help with the utmost gratitude, though in truth, as the Director of a Central bank of that time assured me, the security which they offered was more than ample.

To its cost, as it turned out, the Central bank was not content with rendering such humdrum services. As Lord Goschen has pointed out in his "Essays and Addresses," public servants—which term may be held to include servants of public concerns—are never satiated with work. They are always ready for more, whatever new labour that may burden them with. All that is wanted is that they should discover some new opportunity. The leaders of the movement at Neuwied had one such thrust upon them. Their Union is not only a credit union. It looks after poor country folk under every conceivable aspect, finding them, when necessary, in land, in implements, in manures, in goods, in arrangements for common work. To attend to the common purchase of agricultural necessaries—a most important branch of its general work—there was originally a private trading firm

* Only I suppose the Central bank to have been previously existing as the central organ of a number of local banks organised already, not an institution purposely created to start new banks. It is the pre-existing union of banks, in such case, rather than the financial institution which serves them, which provides nurse's milk for the new members joining the family. The principle adopted, accordingly, still is building up from the bottom to the top, not down from the top to the bottom.

"F. W. Raiffeisen & Consorten," which was, no doubt—failing a genuine co-operative supply organisation—the proper kind of body to take the business in hand. But its members were to such an extent badgered by opponents, who accused them of gathering in splendid pickings under pretence of doing altruistic work, that they lost patience. Also, evidently, like so many other co-operators—who are after all to some extent only amateur business men—they fell into the common error of supposing that £1 in the Central bank could be made to do the work of £2 or more. There it was, and what but the result could prove that they were not right in their view? So they transferred their business to the Bank, which was supposed to be rich. The latter, not content with this additional work, launched out into further extraneous business still, which, under the circumstances, it considered safe, and which was intended to be highly useful to the Union. It was the interest of the Union, not thirst for profit, which prompted it. There is no need for going into particulars. There were superphosphate works to be bought in Belgium, to keep down the quotations for artificial manures. There were sites to be purchased—cheaply, it was thought—here, there, anywhere, for intended warehouses, factories, storeplaces; the bank even went so far as to make itself responsible for some co-operative granaries, which are at the present time about the most risky investment that one can embark in. All was more or less speculative, all was outlay which of all things in the interest of its own safety the Bank should have been careful to avoid. It has made no loss on its banking business, which was what it was created for and what it was fit for. Formed with £12,500 share capital, on which it did an annual business of £26,000, it has grown to possess £429,000 share capital with more than £427,000 paid up by 4063 societies, and to do a business of more than £27,600,000 per annum. It lost heavily on its improper non-banking ventures. Under the circumstances it did, the German

law in part constraining it, what in such dilemma was the best and most businesslike thing to do. It stopped its dividend for a year, raided its reserve, and by such means met on the spot a deficiency of somewhere about £45,000. And so the thing is done with, and the Bank starts afresh, with its business all in order, its burden off its back, though there is only a small reserve for the moment to go on with. However, the turnover is increasing,* business is active, and if it can only keep its hands off other tempting, but not quite legitimate transactions, the Bank may be expected to do capital service to the end of the chapter.

Evidently the disposition to do other business in connection with banking—a most dangerous thing for banks of the type of these Central banks to do—is catching. For, reversing the process, the Imperial Union has yielded to the same temptation. It began with a Common Purchase or Supply Society. When the desire came upon it to make itself independent of the State endowed Central Bank at Berlin—which under provocation grew a little exacting in its demands—it converted that society into a bank as well. To be a "bank" is supposed to mean that you become endowed with inexhaustible riches. "Money!"—why, "ce sont des marchands d'argent," explained to me a Paris cabman when pointing out the house of M. Fould at Maisons. Money is supposed to be always plentiful in a bank and to cost nothing. Experience has shown that to be a great mistake, and after the lesson brought rather painfully home to the Neuwied Bank, the Imperial Union might do worse than separate the two forms of business.

All things considered, it will, on a review of what has been said, have to be admitted that Central banks have rendered very valuable services, and have within their own proper province shown themselves safe. However, there was one point at which they all after a time found their power to give out. Expanding

* The increase in 1905 was from 516,000,000 M. to 552,000,000 M.

Co-operation was discovered to have so rapidly growing an appetite, that demand steadily and greatly outstripped supply. This is of course, as in a child, an undoubtedly healthy sign and it shows how useful co-operative banking becomes, once it is well established in a country. But in the management of banks it has its drawbacks.

There seemed nothing more to be done, since even the Imperial Bank had been tapped, and the *Deutsche Genossenschaftsbank* bid for all the money that it could get by means of non-co-operative business. There appeared only one escape open. The Prussian Government hit upon the idea of endowing a Central bank with taxpayers' money, to such an extent as would make it equal to all calls likely to be made upon it by co-operative societies. The argument employed was most plausible. Co-operation, more especially agricultural co-operation, was generally admitted to be a good thing for the country generally. Co-operation stood in need of money. Then let the taxpayers find such!

The practice has spread. Pretty well every German state now has its own endowed Central bank. Austrian "countries"—federated duchies and margravates, that is—have theirs. Austria as an empire is about to form one on the strength of encouraging German results. Hungary already has something of the sort. France has authorized a huge credit for "regional" banks. Italy has decided to form its Agricultural Central Bank. And champions of "agricultural organisation" in the United Kingdom are already talking about following suit and petitioning the Agricultural Department for grants.

It is all a great mistake. Co-operation cannot be generated by endowments. No doubt you may, with the help of such, create a vast array of organisations which call themselves "co-operative." (But raised up on the false foundation of dependence on others, not only for material means, but also for initiative, they are sure to turn out addled eggs.) They may prove

admirable conduit-pipes for "relief," made to look respectable by the use of a popular name. But they can be nothing more. In Germany, since the creation of the State-endowed bank, which at first actually pressed its favours upon them, they have sprung up like very mushrooms in a warm autumn night. But what lasting, what inherent good is there in them? We shall see presently how a drop of worthless soapsud liability may be blown into a huge showy bubble of credit. It only remains to be seen what will become of these societies when Government help is withdrawn.

Within certain limits, I am prepared to agree that a State-endowed Central bank *may* do good. And within such limits, after sundry mistakes committed by his predecessors, the present chief of the Prussian bank is very laudably and strenuously endeavouring to keep the business strictly businesslike. Also, the bank being there, I cannot for the life of me see why co-operative banks and Central banks should not take advantage of the opportunities which it offers—provided always that it does not take out in dependence and constraint more than it gives in credit. Co-operative banks, in any case, want a convenient source of supply. That being created, and the business being transacted on businesslike lines—without gifts, without arbitrary discrimination, without undue interference—the taxpayer's sovereign is to the co-operative society as valuable and as legitimate a coin as the banker's. Only I fail to see what the taxpayer has to do with the matter at all. Either the business is safe and self-supporting. And in that case surely private capital is likely to be found to take it in hand. This would certainly be so in the United Kingdom, where we have learnt to value safe and steady business, even though the profits be not large. Or else it is unsafe, or even losing business. And then, why should the taxpayer be saddled with it? On the top of all this, we know that the State, though it may appear liberal in the matter of interest charged, knows, like S. Martin of Tours, under all

circumstances to get the best of a bargain. As will still be shown, Government inspection, which is generally inseparable from Government assistance, is the very worst kind of inspection which co-operative banks could submit to, being misleading, because under its hallowed seal of officialism it conceals mere mechanical rule of thumb inquiry. Nevertheless, it may prove impossible to separate Government inspection from Government support with funds. And training to dependence, and to trusting in others, is bound to undermine self-reliance and independent effort, which are the two main pillars upon which genuine Co-operation must ever rest.

But let us see how the State-endowed bank in Prussia has acted and how it has answered! It is the largest and the most characteristic institution of its kind. The corresponding institutions in other countries are all more or less moulded on its pattern, and the results have been pretty much identical on a smaller scale.

The Bank was at the outset, in 1895, endowed with a poor £250,000. That sum has long since been found insufficient and the amount has been decupled, which leaves it still more than a million short of the share capital provided, for the greater part by State endowment, for the Agricultural Bank of Egypt, to some extent a congenerous institution. It is not quite clear to what extent private capital is admitted to the common stock. It has been announced that the two great agricultural co-operative Unions have become members of the Bank, but the precise manner in which this has been arranged has not been specified. The Bank is a self-governing body, but under State supervision and responsible to the Government.

Its object is, and was from the outset, to assist co-operative organisations with credit—not agricultural organisations only. But in substance its aid was designed for and is in fact mainly extended to such. It is not, like the French *caisses régionales*, narrowly restricted to business with Central banks only, even among co-

operative organisations. It actually does business with a number of local co-operative societies, not forming part of any Union. However, such business seems only small. Business with central organisations is what the State bank was actually created to carry on. The restriction was intended as a safeguard to the Bank, to prevent abuse, and to widen the foundation of liability. However, since under the law it only requires seven persons to form a society, and seven societies to make a union, the safeguard is not necessarily substantial. The difficulty was, as in the Central banks already described, to discover a standard for measuring "capacity for liability." There were still only the same means available, hugely magnified in this case in quantity, and greatly aided by the official status assigned to the State bank, which entitles it to call for all the official material extant, such as income tax and "supplementary" tax returns, assessment registers and the like. The method remains inquisitorial and is a little unwieldy. Of course, ample deductions are invariably made from the values arrived at, and, out of the balance remaining, only from fifty to sixty six and seventy five per cent is allowed to stand good for credit, according as the borrowing bank may agree to make the State bank its sole banker, or only partially so. Objectionable as the method appears, there have been no actual complaints on this score. The mischief which really has resulted has arisen from the fact which scarcely requires proof, that mere liability affords an unsatisfactory and insufficient standard. Discerning their opportunity with the eyes of necessitous borrowers, local banks and Central banks have worked liability for all that it was worth, neglecting altogether the accumulation of capital, and raising up splendid "castles in Spain" on a very slender foundation. Thus it came about that in some banks a mere 20*s*. share (not necessarily all paid up) would carry with it £50, and even £75, liability, serving as a basis for credit; a 25*s*. share £125; a 50*s*. share £200 and so on. At the same time the power

of affiliated societies to hold more shares than one was enlarged. Thus, to take some glaring instances, a society might take up a hundred £1 shares, securing thereby the right to borrow on a pledged liability for £5,000; another might take up five hundred shares, involving possibly £500 down, but probably less, and purchasing therewith the right to borrow on the basis of a £25,000 liability. In a very crass instance, outside the Imperial Union, a single society might at one time take up as many as three thousand £1 shares, and, on the strength of that, borrow in respect of a liability for £150,000. The effect of this is to be seen on a large scale in the gross disproportions existing between share capital and loan capital which are on record—for instance, 449,521 M. of the one and 2,739,888 M. of the other; 555,185 M. of the one and 3,695,634 M. of the other; 728,523 M. and 9,657,078 M.; 2,865,999 M. and 60,887,107 M. One Central bank, with only 9,150 M. share capital, has raised upon that slender foundation 173,852 M. credit with the State bank on members' liability only, plus 100,000 M. on the security of promissory notes. Another, on the security of 291,500 M. share capital, severally 2,961,820 and 128,000 M. Another Central bank, on the strength of only 139,300 M. share capital and 997,039 M. assets, was even allowed by the State bank a credit of 2,067,400 M. It came to this that, whereas in 1893, before the establishment of the State bank, when Central banks were still thrown upon their own resources, share capital was in societies as 16.4, compared with 100 loan capital—which is more than liberal—under the gracious ministrations of the State bank in its early complaisant days, it went down to 7.4, and for a time even to 3.6—which is preposterous. To what extent this is accounted for by State bank money handed over to local banks will appear from the fact that from 2,539,652 M. in 1893, such loan money, coming from outside—official "manna," as Count de Vogüé has called it—went up to 52,328,627 M. in 1901, whereas deposit capital, which ought to form the back-

bone of a co-operative bank's borrowing, correspondingly went down.

Just as the State bank dealt with Central banks, so in their turn did Central banks under this régime deal with their member banks. A 200 M. share would entitle to 3,000 M. credit, a 1000 M. share to 8,000 M., and so on. *

All this, of course, was to have been foreseen. Give a man credit without exacting adequate security, and he will not care how much liability he pledges, so long as a mere stroke of the pen and a promise will do the business. Humour him in his recklessness, and reckless he will become to the length of foolishness. It was with this inevitable result in view that, some time ago, I ventured to put the problem of co-operative banks in this way, that their business really is to make credit *difficult* in order that they may make it *possible*; they must bind and require the borrower to do so much by his own efforts, that by such means he will really produce security worth lending upon. That, it appears to me, is the argument for co-operative credit, the secret of its possibility, in a nutshell.

Of course the state of things described could not be permitted to go on indefinitely. The State bank was in its own interest compelled to put a stop to it. Conforming to what no doubt it understood to be the task originally set to it, it had made credit very easy for the squirearchy, who were the chief beneficiaries by its ministrations. It had gone the length of advancing money at unbusinesslike rates of interest. But it became inundated with demands, which were all the more perplexing as it had granted credit in the main on current account only, which left it with no "paper" available to pass on and convert into more cash. In self-defence it introduced the bill of exchange, which is negotiable, but distasteful to the squires and

* See on this point Herr C. Heuzeroth's admirable paper on "Deutsche Landwirtschaftliche Zentralcassen" in the "Report of Proceedings of the Sixth Congress of the International Co-operative Alliance," 1905.

peasantry. To secure for itself larger funds, the State bank has long since discovered that, like humbler banks, it must do ordinary, more remunerative banking business as well, to carry the rather dragging co-operative business along with it. However, even so, it could not fail to discern a source of serious danger in the over-inflation of liability referred to. Accordingly under its present, very businesslike chief, it set itself to introduce other methods. It became stricter. It gave notice that it could no longer allow liability as the sole standard, but must distinctly take capital into account also, avowedly as a means of inducing local and, above all, Central banks to pay greater attention to the accumulation of capital, be it share capital or reserve. With such object in view, it kept admonishing banks in earnest words to have regard to capital. For itself, it would not henceforth allow credit in any case above the tenfold amount of the bank's own capital, no matter what its "capacity for liability" might be shown to be. This made a tremendous difference to some banks. It greatly reduced their borrowing power. And, generally, the squirearchy broke out in a deafening chorus of protest and complaint. They would, so they threatened, form their own bank, and make themselves independent of the State bank. They tried something of the sort. However, the State bank promptly warned them—here the "miller's thumb" of State interference discloses itself—that eclectic business must mean no business, that if it did not have *all* the Imperial Union's business in Prussia, it would have none. From its own point of view it was perfectly right. And it had the power to enforce its will.

Such threat had the desired effect. Rebellion collapsed—and the State bank has done more business with the Central banks since. They have paid heed to its advice and become more businesslike in the accumulation of capital. That is, after all, not bad business for them, seeing that for every £1 which they accumulate, or lay by, they stand to receive, when wanted,

£10 in credit. Among other things, the new régime has also led them to pay greater attention to the gathering in of savings deposits, and several Central banks have in consequence already grown strong enough to possess more deposits than they want for loans. They are creditors to the State bank, not debtors.

Thus, with all its inherent defects, a State bank may after all do something to lead Co-operation into a businesslike groove and thereby strengthen it, and really, if by some unkind ruling of inexorable Fate there *must* be a State bank, the Prussian, as now presided over by Dr. Heiligenstadt, would best serve as a model.

The State bank has in due course come to monopolise pretty well all the class of business to do which it was first called into existence. The Imperial Union, with its immense posse of societies, accepted its proffered hand from the outset, being thankful to have such a source of practically inexhaustible credit opened to it. The Neuwied Union, smaller, but stricter, and far more orthodox, held back for a time, proudly declaring that it required no help, that it could perfectly well do for itself. The miscarriage of its trading ventures drove it into the arms of its more powerful sister institution, ready to welcome *protégés*, as is the Russian Empire to conclude alliances with adjoining khanates. However, the business of the State bank extends much farther. Its help is so very useful! Among other things, apart from finding money which without it it would not be altogether easy to obtain, it grants it on what are, more particularly to agriculturists, very acceptable terms, that is, at a, generally speaking, lower rate of interest than the open market *for long periods together*, excluding fluctuations within such limits. This is a point which deserves to be fully appreciated. A long-term loan at a fixed interest, which cannot be raised, must be a boon indeed to agricultural borrowers, and may be valuable to other borrowers as well. Accordingly, even one of the credit societies of the Schulze-Delitsch Union, that straitest

sect of the co-operative orthodox, has taken refuge under its wings. There may be more; I know of one. Being situated in a rapidly growing quarter of Berlin, where it does highly useful work in advancing money for building purposes, it finds its needs perpetually exceeding its command of available money, even beyond what the *Deutsche Genossenschaftsbank* has been able to supply. The State bank, accordingly, proved to it a veritable god-send.

All things considered, therefore, the Prussian State bank has a good deal to say for itself. It has provided financial assistance where financial assistance was wanted—although it will have to be admitted that it has done so also where no urgent need can be proved. It now dispenses credit to societies embracing 1,235,529 members. Its annual turnover has increased from 9,853,000 M. to 492,650,000 M. For the full decade of its existence its turnover stands at 2,625,000,000 M. As it is now organised and directed, it is sure to prove as useful as it is possible for a State bank to be, educating and restraining as well as promoting, sometimes to the point of forcing. For its own sake it is not likely to allow business to degenerate, but pretty sure to keep it businesslike. This does not do away with its inherent defects. But abroad, the great desire at present is for results—for quantity or number, rather than quality. For all that, in the interest of Co-operation, one would wish to see similar service rendered by a purely business body, divested of official power and official terrors, meeting co-operative banks on a footing of equality.

There is a different tale to tell in respect of France. There, after a search pursued through decades for some acceptable method of assisting Agriculture—habitually supposed to be a wronged and "decaying" calling—without excessively offending the taxpayer, who is to pay the piper (since there is no one else to do it), a device has been hit upon in which, evidently, ingenuity has outrun judgment. Agriculture, according to the accepted formula of the day, is to be assisted under the plausible

disguise of Co-operation. "Co-operation" is the word; but the benefit is explicitly and designedly limited to Agriculture; and the State endowment is advisedly masked, but masked under so transparent a disguise as to betray itself to the most unsuspecting. There is nothing paid directly out of the National Exchequer; but under its renewed charter (of 1899) the Bank of France is made, after a first advance of 40,000,000 francs down at the time of renewal—to run as a non-interest-bearing loan concurrently with the charter—to hand over every year, without claim of recovery, a portion rather scientifically calculated of its net profits, which must not in any instance fall short of 2,000,000 francs, but which has, as a matter of fact, hitherto invariably exceeded 4,000,000 francs, to the Minister of Agriculture, to be employed at his discretion in support of agricultural credit. By such means, in the course of time, an enormous sum, running into millions of pounds, bids fair to be made available for agricultural needs. The money does not, as observed, come ostensibly out of the taxpayer's pocket, but, in point of fact, it is the taxpayer who pays every farthing of it as certainly as if the tax collector collected it from him on his rounds. Such stratagem has been adopted of set purpose. It is to throw dust in the taxpayer's eyes. The Bank of France, so it is argued in justification of the process, was chartered, not solely, or even mainly, to earn a dividend for its shareholders, but primarily to discharge a public duty, that is, to provide credit alike for *all* interests in France. It has hitherto altogether failed to do so in respect of Agriculture. That, it is admitted, is not by its own fault. The Bank simply *could not*, because Agriculture, as everyone knows, cannot take up three months' paper, but requires advances for *long* terms—much longer than at all fit in with the business usages of an institution like the Bank of France. Nevertheless, so it is now contended, the Bank's failure to provide credit leaves Agriculture with a just grievance. And since Agriculture cannot come to the Bank with three months' paper, like Mahomed going to

the mountain, the Bank must go to Agriculture, and devise some scheme which will make credit convenient to it.

Now such problem admittedly is a very difficult one to solve. France has tried its hand at it more than once and failed, benefiting in the end by its repeated largess, in one memorable instance, not Agriculture but the thriftless Khedive Ismail, to the tune of as much as 168,000,000 francs. Italian Ministers and managers of Government savings banks have racked their brains over the same problem, devising privileges for lenders which bear a strong family resemblance to landlord's distress and hypothec, and long term bonds which will not find purchasers, only to fall back in the end upon the familiar and approved business methods which Frenchmen still consider inadequate in their own case. Nevertheless, some means must be found, and so it has been decided that the money coming from the Bank is to be paid over to the Minister of Agriculture. The further disposal rests with him. He has a Board to advise him, but is under no necessity to take its advice. In fact he is as much the Board, as our Chancellor of the Exchequer is the National Debt Commissioners. One fixed rule has been laid down, namely, that at the Minister's discretion the advances decided upon are to be made, not to local societies or agricultural syndicates, but only to "regional banks" formed by such societies. Each advance is to be made free of interest, so as to enable regional banks to deal liberally with local societies (though no distinct rate of interest is prescribed), and for a period to be fixed before-hand, which, as a rule, is five years. The gratuitous advance happens to be needed—and may indeed be needed much beyond the five years for which it is given. For under a proviso, which recalls a provision most inconvenient to Village banks in our own Friendly Societies Act—which Act was of course passed with a totally different object in view than that of serving for credit societies—the local bank or society is permitted to take deposits only to the

maximum limit of three fourths of the money which itself has lent out. (Under our Act it is two thirds.) That means, that 25 per cent of the money which a local bank deals out must be provided by itself, in the shape of share capital or reserve, or else, since the passing of the new Act, by a grant from the *Crédit Agricole.*

No credit society, however, starts with a reserve fund. And it has been made extremely difficult for it to accumulate such, as the official annual report on "Agricultural Credit," published in the *Journal Officiel* of 2nd October 1904, freely admits, because under the existing system all canons of sound business are distinctly set at nought. The regional banks receive their advances without charge for interest in order that they may be able to lend out their money at a very low rate. In agriculture this is always considered essential. They are expected to do so at 2 pct. Now, if they do any business worth mentioning, in spite of all that is said about the supposed impossibility of their doing so, they will have to pass some bills on to the Bank of France to be discounted, simply because they *must* raise money somehow, and there is no one else to give them money for their bills. Such necessity means, that on every transaction of the sort they will lose something like 1 or 2 pct., or indeed more, because the Bank of France rate of interest is by so much higher than their own. Consequently, the more business they do, the worse will they fare, and, instead of accumulating a reserve, the greater a hole will they make in their poor existing assets. Really a more striking example of "how not do it" could not have been produced.

Of course the local societies might meet the difficulty by raising a substantial share capital. But that is the very thing that they do not want to do, that the *Crédit Agricole* Act was designed to enable them to do without, and that, under the Raiffeisen rules—which to that extent at any rate are most gladly and unreservedly accepted—they need not and should not do,

Such are the objections to the French scheme on business grounds. But there are others. The Minister of Agriculture being a single individual, and a party politician to boot, cannot help having his likes and dislikes. However he is master. There are complaints all over France about his arbitrary action. "That gift of the gods, the friendship of a great man" has, so Count Louis de Vogüé has stated, ensured to certain regional banks "without trouble three or four times their proper share of the governmental manna." Others have gone without. Many have been kept waiting for several years together without rhyme or reason, though their claim was legitimate, their case good and their need pressing. Others have been ruled out of the benefit on what appear to be at the very least arbitrary, if not wholly illegal, grounds. The Government being anti-clerical, of course the Raiffeisen banks, which have a religious object in view as well as an economic, and are in a Roman Catholic country for the most part in touch with the Church of Rome, are distasteful to the authorities, who persistently raise the technical point, whether registration under the older Act, under which they were actually formed, brings them within the Act on *Crédit Agricole* or not. Lawyers say: yes; the point is quite clear. The Government says: no, and fences the question like Goldsmith's "schoolmaster," though worsted more than once, with a persistence worthy of a very much better cause. Its argument really amounts to a *sic volo, hoc jubeo.* But it holds the purse strings.

Under such circumstances, it is not surprising that very little good should thus far have been accomplished by the *Crédit Agricole*, which taxes the Bank of France, practically, not to subsidise French Agriculture, but to make welcome advances, free of interest, to the political Government.

A bill, tabled by M. Codet in 1904, shows that up to the close of 1903 there had been in all 62,499,966 francs paid into the account of the *Crédit Agricole*, and only 7,422,985 francs allotted to regional banks. The latter figure included, as a

"Report upon the Budget of Agriculture, 1904," prepared by the present Minister of Agriculture, M. Ruau, records, as much as 1,881,949 francs assigned to regional banks which showed no share capital whatever, 688,212 francs to one single bank. And what particularly incenses the champions of French Agriculture is, that the remaining 55,000,000 francs is not stored up for use, but presumably gone, "sunk in the bottomless swamp of Treasury expenditure," as M. de Fontgalland has put it. "The Government would have some difficulty in producing the money, were it called for," so he added.

Persons interested are busy endeavouring to produce a more workable arrangement. In any case, they would save what was earmarked for "Agriculture" from the clutches of short-lived Ministries. Not a year passes without amendments brought forward in the Chamber, without fresh regulations issued by the Ministry of Agriculture, which may possibly improve matters —just to the extent to which they are obeyed. Some new modifications in the direction of improvement have been quite recently added.* But it is very doubtful if what is faulty in substance can ever be got rid of by surface amendments. The scheme is manifestly wrong. It begins with the provision of

* The French Government has attempted to remedy the effects of some of its earlier mistakes by insisting—in recent instructions—that upon any renewal of the five years' advance made, the original debt must be to some extent reduced; also by suggesting to regional banks that they should no longer grant advances *under* bank rate, but rather give borrowing local banks a corresponding benefit in the shape of a *ristourne* or bonus return of part of the interest already charged to them. The last named measure can obviously do no more than put a businesslike face upon an unbusinesslike transaction. Under the first named direction it is announced in the *Journal Officiel* that the substantial sum of 126,250 francs has already been recovered on the expiration of the first quinquennium! Nevertheless the volume of loans granted has increased from 24,821,833 francs in 1904 to 44,337,360 francs in 1905, and some of the very regional banks made to repay have largely increased their indebtedness under this head, *e. g.* that of Nancy from 260,400 francs to 498,300 francs, that of the Gironde from 246,540 francs to 639,200 francs, that of the Midi from 1,000,000 francs to 1,799,000 francs.

money, when it ought to begin with the creation of security. It begins at the top, when it ought to begin at the bottom. It provides "manna," *pays de Cocagne* manna, produced without labour, which is to trickle down, instead of a healthy crop of vegetation raised from the soil, growing from firm roots by its own force. Its distribution is arbitrary, governed by favour or worse, when it ought to be regulated purely by considerations of business. It is in fact not credit, but "relief;" and, coming as relief, it is more likely to be squandered than husbanded, more likely to make receivers wasteful and dependent than laborious, thrifty and self-reliant. *

What has been said in this chapter may, I think, be summed up as follows. There can be no doubt that, as a central point for a sufficient number of co-operative banks, a Central bank may be an exeedingly useful institution; and wherever there are enough local banks to support it with capital and with business, they will, I believe, do well to form one—one of their own, that is, not one provided by the State, or by patrons, or local authorities, one crowning an edifice already existing and formed in obedience to local requirements, not created as a root to produce local banks like forced shoots.† A Central bank, properly organ-

* On the working of French "Regional Banks" see the two papers contributed to the "Report of Proceedings of the Sixth Congress of the International Co-operative Congress," the one by M. L. Durand, the other, written on the ground of official and other information, by myself.

† I have advisedly omitted to refer to the "central banks" quite recently introduced into India, where, specifically in the United Provinces, they are reported to be promising well. Their existence has, thus far, been of so brief duration that it is much too soon to talk of results. Apart from this, their object is not quite the same as that of the central banks here passed in review. They are rather intended as propagandist seed plants, placed in certain districts to scatter their seed abroad, in order by such means to raise up a growth of Village banks, which latter, under the circumstances, become what the Revenue Department in fact calls them, rather "branches" or "agencies" of the central banks, the proper name for which, I hold, would be "district banks," than independent, self supporting organisations. Indian organisers of Village banks appear to find three

ised, may greatly facilitate business for such banks and appreciably strengthen their position. It is sure to equalise the rate of interest for their benefit. It may assist new banks. It may, not only render valuable service in balancing surpluses and deficiencies, relieving local banks individually, while giving strength to the system. Beyond this, provided that it has a good substantial foundation, entitling it to credit, it may in time of want of money procure such for them very much more readily and cheaply than, as a rule, they could do for themselves. And times of want of money there are sure to be. We shall always have to bear in mind that co-operative banks are not, like other banks, formed with capital as a starting point, to enable those who are possessed of ample capital to carry on a remunerative business, but rather with capital as an aim, a *terminus ad quem*, to enable those who are weak in capital, or possessed only of its equivalent, that is, acceptable liability, to work up towards obtaining it. Capital is therefore to them, so to speak, not the steam generated within the mill itself, but

peculiar difficulties obstructing their way. One is a want confidence among the depositing public. Another is the absence of a sufficient number of people in the villages capable of keeping accounts. And the third is the separation produced by the barriers of caste rule. These difficulties, so it is said, are being successfully overcome by the interposition of "central" or district banks, originating, or, in the true sense of the word, "affiliating" local Village banks. The "Central bank," having the united liability of all affiliated Village banks to rely upon, already attracts more money and appears to be generating greater enthusiasm among wellwishers. It is in a position to keep the accounts efficiently for the local banks, and it seems that it enables the several castes to co-operate harmoniously. Of course the governing Board is representative of the affiliated bodies. On new ground, one must be glad to see whatever new methods promise best to suit local circumstances adopted. And circumstances in India are, in various respects, very peculiar, but generally helpful to the organisation of local banks. Accordingly, in that country, this new method may be found of advantage, or even necessary. Elsewhere, however, it is to be feared that the advantages gained would be very dearly purchased by the sacrifice of that strict local control, independence and selfcontainedness, which are by all co-operative banks held to be of the first importance, and indispensable to successful existence.

the borrowed water which has to be conducted to them from a distance to set their wheels turning. Where the basis of a co-operative bank is associated liability, borrowed money is likely to be wanted from the outset.

In that case a Central bank may be of twofold advantage, namely, in the first place, by finding the money at all, and, in the second, by finding it in the right way. Opponents are pleased to criticise this as spoon-feeding. It is anything but that. The local bank which, when begining work, has a Central bank to go to, to which to submit its claim for credit, and from which to obtain credit accordingly, is further removed from spoon-feeding than one which, for want of such an institution, finds itself compelled to beg the money from friends—which latter course is nevertheless allowed to be a legitimate transaction. For it starts on genuine business lines, claiming credit only in return for security, and dealing with it as being under a specific obligation. The private capitalist may at a subsequent stage forgive the debt, and the bank will have started with a gift. The Central bank will not let its debtor off unless he goes into liquidation, and brings his existence to an end.

For subsequent credit, the Central bank constitutes generally speaking the only available means; for individual credit with private banks is not likely to be freely granted—let alone that for the receipt of its surplus deposits a Central bank is likely to be the safer, or at any rate the more readily trusted, receptacle. In their capacity of chief dispensers of credit such banks may, as the Prussian State Bank has done, exercise a very useful and wholesome influence on local banks by keeping them up to the mark in respect of compliance with business requirements, accumulation of capital, etc. (I purposely do not now include inspection under this head.)

It will have to be borne in mind, of course, that the Central bank is not, and cannot be, the *prime* source of the capital drawn upon, such as the State banks and State credits referred

to are designed to be, but only a conduit-pipe leading to that source. It will therefore have to be made distinctively the banks' own, either by an arrangement which secures them its services, or by independent formation. In the case of co-operative banks based, let me say, on a ready money security, and with brisk and varied business, it will much better be by arrangement; for that will, by adding a powerful outside buttress, ensure incomparably greater strength, and relieve local banks of all risk or responsibility except for debt actually incurred. It ought also to serve as a safeguard against that besetting temptation to Central banks, to encourage credit transactions on the part of local banks, which, for its own sake and far more for theirs, it ought rather to be careful to restrict. The Central bank, having a share capital to account for, on which it is expected to pay interest, will naturally try to "make business," in order to earn a profit. Otherwise it will be supposed to have failed in its object. But it is not by any means to the local banks' interest that business should be "made" in this way. The less they borrow from the Central bank, which is to be only their reserve source—that is, the more fully they succeed in obtaining *all* the money which they require in their own districts, the more successful must they be pronounced to be. I may here opportunely recall M. Durand's apt simile of a bank's going into "hospital" whenever it borrows. Therefore it is absolutely wrong to make a Central bank *rely* upon co-operative business. It may easily enough succeed in leading the local banks to borrow from it instead of scouring their districts for deposits and stimulating thrift. It is, of course, more convenient to borrow. However, the promotion of thrift is distinctly one of the co-operative banks' special objects. And how would it be if the Central bank money were at any time to fail? The local bank would be thrown on its beam ends. Nobody would under such circumstances care to deposit with it, after the other supply of credit had failed. The Central bank ought therefore to be, in

a manner, independent of co-operative business, though suc business there is always sure to be. German credit co-operato are now asking themselves how they ever could have got o without Central banks, which at present they find so unspeakabl a convenience. But either it must be immaterial whether th Central bank earns a profit or not, or else the Central ban must have other fields open to it to forage in for business.

As for the credits obtained by local banks from the Centra bank, under such circumstances every credit will be made, a it should be, entirely on its own merits and as not affecting any other dealers at the Central bank. The Central bank wil alone bear the whole of its responsibility. If, once more, by faulty judgment, that bank should launch out into speculative business, as did to its cost the *Deutsche Genossenschaftsbank*, that will be its own affair. No local bank will be a penny the worse for that. On the other hand, the *Deutsche Genossenschaftsbank* has not lost on its co-operative societies' business, nor has it in the slightest degree jeopardised co-operative societies' money. Co-operative societies' business, under the peculiar conditions, cannot pay really well, nor is it perhaps likely fully to occupy a large and ambitious bank. But, on the other hand, it possesses the two great advantages of steadiness and safety. And in countries like the United Kingdom, where such advantages are prized, and where the rage for gambling dividends, which is in its hot stage in Germany, has in many quarters subsided, it ought not to be difficult after a time to find money for such a venture.

Where business is less active and more uniform, above al things where the accepted principle of credit is the mortgaging of liability, a Central bank really of the local banks' owi appears on all accounts preferable. It will have to enter int arrangements with more capitalistic bodies to turn the collective liability which it represents to account. But, so long as it keeps to its own business, and abstains from dabbling in specul-

ative ventures, it is sure to be safe. Neuwied has embarked in such ventures without evil intent, simply because it over-rated the working power of the money at its command, which is a failing unfortunately rather common in co-operative enterprises. Really, such business lay altogether outside its "mandate," or brief; it should in similiar cases be explicitly excluded from the powers entrusted to the Board.

State interference, whether for the provision of funds or for superintendence, however plausible a case may be made out for it, seems altogether out of place in this connection. It may no doubt greatly hasten and multiply results, but only at the expense of their quality. If the business of providing money is good and self-supporting, it should be possible to find capitalists to come forward and take it in hand as a business venture. It is sure to be carried on by them on more purely business lines. If it is not self-supporting, then why should it be taken up at all, certainly why at the taxpayers' expense, more especially without their explicit authority? The loss will be theirs, and, as M. de Fontgalland's remark at Budapest shows, it may amount to not merely a trifling loss on annual business, but to an absorption of the principal into the coffers of the State. In Prussia, the present President of the State Bank has very creditably managed to remould the business of that bank on genuine business lines, and, to that extent, his institution undoubtedly does good, providing money that is usefully laid out, and restraining reckless tendencies in the Central banks over which he exercises authority. However, his bank cannot shake off responsibility for an unhealthy, artificial stimulus given to the formation of what are, in many cases, co-operative societies only in name, which, but for the gratuitous offer of money—which of course the bank desires to set in motion so as to earn interest upon it—would never have been called into existence. The bank cannot shake off responsibility for having taught a whole population to look for assistance and improvement of its

position, not to its own efforts, but to the favour of Government, to become, not more self-reliant, more ready for initiative of their own, but rather more dependent, more submissive to Government initiative. In France the case is a good deal worse. For there, not even businesslike methods have been adopted, and deterioration of character, distrust in oneself, dependence on help, guidance and pushing from the political authorities have increased apace. People seem to have become incapable even of forming a village pig-club, or a friendly society, without support from the taxpayer's pocket. That is not co-operation. And that does not mean making Agriculture, or any other calling, stronger, or fitting those who carry it on better for competition. It is an abuse of the form of co-operation, resorted to for compassing an end which must be injurious to the Nation.

All things considered, the State had much better keep its hands off such business.

CHAPTER VIII.

UNION FOR PURPOSES OF INSPECTION

UNION may, in co-operative banking, be made to render other services besides those of focussing business, equalising supply and demand, and creating machinery by which the great capitalist market may be tapped. Once the number of banks has become considerable, or the business of any one bank substantial, outside control and examination become a matter of the greatest importance, if business is to be kept fully safe, and the confidence of the banking public is to be maintained. And for such purposes, as I propose here to show, unions of societies, formed for that very purpose, afford by far the best means—machinery incomparably superior to any which, for instance, the State, with all its power of compulsion, could devise. So fully is this recognised abroad—wherever experience in co-operative banking has sharpened wits—that even where there is no combination for central banking purposes, "revision unions," that is, unions for the specific purpose of uniform audit and inspection, have been formed.

The difficulties which local societies have to contend with in applying checking machinery of their own have already been lightly touched upon. There is, above all things, the paucity of available qualified persons to be taken into account. Control, to be worth anything, must be effective; and effective control presupposes expert knowledge, such as not many amateur bankers can be expected to possess.

It is such paucity of qualified members in the local banks which, in its early days, drove the Neuwied Union of Raiffeisen

Banks to the adoption of a device, which is good enough in itself as a stopgap, and which has been highly useful in preparing the way for Union inspection, but which I am sorry to see some of our United Kingdom societies disposed to adopt, as if intending it as a permanent institution, namely, the audit and supervision of local banks directly by officers from the central office, not as an addition to, but as a substitute for, local examination. However you organise your co-operative bank, local inspection must, under all circumstances, be its great mainstay, the keystone of its fabric. The object of superior inspection is not to replace it, but rather to compel it, while supplementing it by expert service: to compel the local examiners to do their duty, and to do it well. Neuwied was driven into the adoption of the expedient referred to, because it could not make sure that, under the primitive conditions subsisting, local inspection would at the outset be carried out with sufficient care and completeness by local men. Of the two evils, if the choice *must* be made, want of auditing skill and want of local knowledge of persons and of circumstances, without question the latter is the more detrimental. Therefore, not as an ideal, but as a temporary measure, a *pis-aller*, that Union organised an elaborate annual inspection of papers by post, supplemented by very full interrogatories, which were designed to serve the purpose of local inspection. Such inspection "by letter" still remains in use. However, as a matter of course it has had to be supplemented by at least biennial visits from Union inspectors, once the Co-operative Law of 1889 came into force. The circumstances of the case account for the extreme minuteness of the examination to which local banks are subjected, which is, as will presently be seen, carried very far. For want of knowledge of local circumstances the questionary necessarily had to be enlarged. However, in the mean time, under cover of questioning from headquarters, independent local examination had been made a reality. Those among our societies who, in

despair at the inexpertness of local people, have made inquiry by officers from the head office a standing feature, ought in fairness to themselves to imitate the Neuwied Union also in turning such headquarters inspection to account for gradually training up local people to proficiency in local auditing and inspection, which is, for any duration of time, even more necessary than the other—in fact quite indispensable.

The paucity of fully competent members is one reason why, in the larger Share banks, as already shown, it is becoming more and more of a recognised practice to entrust the actuarial part of the work of supervision committed to the Council to a skilled accountant, who is much better fitted to deal with the figures to be examined than those under whom, nominally, he is called upon to act. However, suppose that, with or without the addition of such an expert, you have found a sufficient number of qualified men to undertake the task, it is still a good deal to ask of them to continue any length of time in the discharge of duties which are certain to be onerous and to require a sacrifice of time, and also to involve not a little responsibility. There may be remuneration for this, it is true; but even in a strong bank such remuneration is not likely to stand in anything like a just proportion to the sacrifice imposed. Nor should it. For such office ought never to become a "berth." As a matter of fact, the answers, to which I have already referred, given me in active banks abroad by men engaged in local supervision, show that, in banks doing any large business, insufficient supervision is *the* weak point of the system. The volume of business is too large. Members of the Council of Supervision cannot afford sufficient time for it all. Much has to be taken for granted, and through such loopholes mischief is only too likely to creep in.

But suppose that the members of the Council are equal to their work and willing to remain in charge of it for a considerable period, that necessarily lets in another danger. These

men are always the same men, subject, like all members of the human species, to the tyranny of habit. They are familiar with the routine points, they know the local conditions; but they would be more than human if their work did not become mechanical, and if impunity in overlooking some little irregularity in the past were not allowed practically to count as an excuse for overlooking it in the present, for the supposed benefit of some popular member. That is another dangerous point at which the ship may easily spring a leak. These men, with their practised eye, discover with greater quickness than an outsider errors on the one side of the business with which they have become familiar. But they are apt to overlook quite as important evidence of danger on the other, which the eye of a stranger, fully skilled in accountancy, would in many cases detect at a glance. And they are also apt to be swayed by personal sentiment, against which a stranger's mind would be steeled.

There is a further danger still threatening from mere "in and in" inspection. Members of the inspecting Council are required to be members of the bank, which they presumably have joined in order to benefit by its services. It would be hard measure, indeed, to mete out to them to deny them such benefit, when in fact they show greater devotion to the work than others by undertaking onerous duties. But how, if they are to be judges as well as parties in the examination, can you make quite sure that their borrowing will be effectually controlled? Precautionary methods of various kinds have been tried. I have spoken of some. But their efficacy is at best imperfect. And it will have to be borne in mind that here are a number of people acting together, and, so to speak, in the same boat. Human nature is human nature. Turn it out by the door; it will return by the window. *Clericus clericum non decimat.* Whenever, in past experience, a co-operative bank has come to *serious* grief, the fault has nearly always been found to have lain with

careless lending *to members of the Council,* stretching points in their favour.

In a small bank, up to a certain point, the danger appears less imminent. Transactions are humble, and the general body of the members pretty effectually check their own checkers. But, even here, the evils resulting from too much neighbourly contact have made themselves noticed—coupled, unfortunately, with an additional danger, a danger peculiar to rural communities, namely, of excessive regard for great persons and exaggerated trustfulness. In a small rural society the great man seems to occupy a privileged position. Bob Stiles knows all about the affairs of Tom Miles. However, "the gentleman" in the big house is apt to be considered a Crœsus. Nobody would think of offending him by prying inquiries or examination. Circumstances are not quite the same in this country as abroad. Nevertheless it is always better to keep on the safe side. And abroad, in rural banks as well as in others, whenever mischief of a character at all grave has occurred, it has generally arisen from overtrustfulness—from allowing members, generally of the Council, a credit to which the result showed that they were not entitled.

In large active banks there is not the same worship of great men. But the controlling power of the general mass of members becomes weakened, and members of the Council are apt to have their own way. No one is willing to say his colleague nay. And the unsafe borrower, finding himself short of money, may, if he only have sufficiently powerful friends, have extensions granted or new advances made to a dangerous point.

In both provinces of banking, therefore, to make business quite safe, there ought to be some superior authority to check things—some authority not itself interested in local credit, having no benefits to ask for, no personal consideration to take, being thoroughly independent, and at the same time skilled. And such authority is only to be provided from the outside.

Recognising this fact, the Schulze-Delitzsch Union, which has in the matter of organisation for business purposes acted throughout as pioneer of the co-operative banking world, has long since of its own accord introduced inspection, on the part of the Union, as a necessary incident of membership. And, although in this world of imperfections such wholesome measure has not been able to keep out all mischief, there is absolutely no difference of opinion on the point of its intrinsic merits. The sincerest proof of approval has been given by the two Governments of Germany and Austria successively borrowing this particular feature from the Schulze-Delitzsch programme, and firmly graving it upon their statute tables, making inspection, such as Schulze introduced and his successors perfected, obligatory upon all co-operative societies—our British co-operators, who are anxious to see greater power of examination *proprio motu* conferred upon the Registrar of Friendly Societies, will do well to note this—banking societies *and others*. And, following in the wake of those two Governments, the Italian People's banks seem now contemplating similar action. The question has indeed occupied public attention in Italy ever since 1888. It is to be discussed, for the purpose of arriving at a settlement, at the next National Co-operative Congress.

The entrance of Italy upon the scene is interesting and instructive, because, really, no fact could more plainly demonstrate the great utility of inspection by a superior, independent authority, than the rather striking difference observable, collectively speaking, between German co-operative banks, which have had it, and Italian, which have not. M. Luzzatti himself, the original initiator, and still the chief, of the Italian People's banks movement, has owned to me with creditable frankness that, although he distinctly assigns to the best of his own banks, such as those of Cremona and Bologna, a superior position to any German co-operative bank, nevertheless he is bound to admit the entire phalanx of German co-operative banks to be of better

quality than the Italian. There is more uniformity, a higher collective level, a common mark impressed upon them all, stamping them members of one family. The explanation of this fact lies in the ordeal of independent inspection, which has produced that common level. All banks benefit by it, because even strangers to any one of them know what being a Schulze-Delitzsch bank means. To fall below the common standard, justifying confidence, would be to incur the danger of expulsion and withdrawal of the common "trademark." There are several cases on record where it has been withdrawn—and the bank has suffered seriously in consequence. In Italy, though there are excellent individual co-operative banks, the trademark is wanting: there is no standard. There is, in consequence, necessarily great uncertainty as to the quality of any particular bank. Some years ago a leader of the movement frankly owned to me that of about 700 People's banks then in existence only about 250 were in his opinion "good," 200 more "indifferent," and 250 distinctly "bad." That may serve to place the quality of such excellent banks as those referred to in all the bolder relief; but it cannot benefit the movement as a whole. It was this difference between good and bad which, as I have already explained, according to the testimony of the late M. Valentini, placed an insuperable obstacle in the way of the creation of a Central bank for common convenience, desirable as such new departure was admitted to be on its own merits. But the good banks would not pledge their liability for the bad.

I need scarcely explain that the Schulze-Delitzsch system of inspection did not spring fully panoplied out of Schulze's head, but was gradually evolved with the help of observation, as indeed was that of local inspection. What first led Schulze to think of inspection at all was our familiar "audit"—not the highly expert audit of joint stock company accounts by skilled accountants, but the friendly society audit by "one of the public auditors appointed as in this Act mentioned, or two or

more persons appointed as the rule of the society or bank provides." Now our "audit," extremely valuable as it is, and quite sufficient for small societies working on simple and stereotyped lines, is not by any means generally adequate to the needs of the case. It establishes what Dr. Felix Hecht, the able Managing Director of a leading German Mortgage bank, while earnestly pleading for the adoption of our accountants' audit by German business houses, at a congress recently held in Germany,* described as "accuracy in matter of form" (*formelle Richtigkeit*). Dr. Schneider distinguishes between *calculatorische Revision*, an accountant's inspection, and a revision for *sachliche Richtigkeit*, regularity of business itself. Our audit puts figures straight, and testifies that there is a voucher for every entry. But it does not tell that business has been properly conducted, that in every instance adequate security has been taken, that limits as to time and amount have been duly observed, that the quality of sureties has been inquired into and their signatures have been verified, that members' loans have been kept within the figures of the "credit list," that members of the Council have not been obligingly accommodated beyond what they were entitled to, and so on. However, all these things are really of far greater practical importance to the bank than the precise agreement of figures on one side of the balance sheet and on the other. Accordingly, more had to be provided for. The Council of Supervision was instructed to overhaul the entire business done and to direct its inquiries to every act of the Executive Committee.

What has been said under this head with regard to local inspection applies with even greater force to inspection by a superior body. Correct and uniform bookkeeping and accountancy are useful helps, but the main point at stake is the sound administration of business. Mere auditing may, after all, possibly be

* At Hamburgh in 1893. See: "Verhandlungen des Vereins für Socialpolitik." Bd. 113. pp. 149—153.

left to the local bank, though a second examination can never be amiss. However, an outside inspector could never be expected to undertake a minute actuarial examination. That is wholly out of the question. That is the task of the auditors. But what must imperatively be tested from outside is, whether the business has been conducted on proper lines, and whether personal considerations have been set aside, as M. Luzzatti rightly insists that they should be, misquoting, to enforce his meaning, a passage from Scripture, which is made to say that neither father nor mother should be dealt with otherwise than other folk. And such consideration it was which led Schulze, after he had previously, for rather similar reasons, recommended the employment ot trained accountants in local banks, to submit proposals for the adoption of a Union audit which were of course agreed to, and further followed up, till a thoroughly workable method was arrived at. Inspection by a Union embracing somewhere about 1000 societies would be rather an unwieldy business. Accordingly, the work was cut up into parts, and the task was in each case entrusted to the local section, in which the number of societies is more manageable. Among the several sections, however, as will be shown, close touch and strict uniformity are upheld, to maintain the standard.

The first resolution, declaring such inspection to be desirable, though still leaving it only optional, was adopted in 1878. In 1881 inspection was declared obligatory within every three years. In 1887 a long resolution was carried, giving very explicit directions as to the choice of inspectors and the way in which inquiry is to be carried out. These directions, which are still in force, lay it down that only fully qualified men are to be employed as inspectors. They give these men more ample power than they possessed before to inspect in detail, in the presence of the Committee and the Council—for instance if there should be reason to suspect that the local inspection had not been carried out in an efficient manner—which fact, of

course, the report is sure to show. A rule was also inserted making it illegal for an inspector to accept payment or gratuities from any one but the section whose servant he is. The local society pays the section the regulation fee, and the section in its turn pays the inspector according to his work. Provision was also made for careful consideration and discussion of the inspector's recommendations by the society, and for a report to be presented to headquarters showing to what extent such recommendations had been complied with.

So useful did the inspection introduced prove to be, that the German Government, in 1889, took the matter up as one of public concern, and made similar inspection obligatory by law on every co-operative society at least once in two years. The Austrian Government followed suit in 1903. With seeming—but only seeming—consistency the two Governments went further, and, while insisting upon inspection, at the same time also provided public officers who were to conduct it, though ostensibly only as an alternative to inspection by other approved means. However, the peculiar facilities afforded for Government inspection, at a fee which the taxpayers' contribution makes scarcely more than nominal, render it clear that Government inspection is what the Governments wish to see adopted. At the time of writing, the Italian Government appears to be contemplating some similar measure.

It is not surprising that the two Governments spoken of should take credit for what they have done, as tending to raise the quality of co-operative credit institutions. In truth they were driven to it, as to a necessary sequel to their own earlier imprudent acts. They have advisedly taken the initiative in calling co-operative banks into being, so to speak, by "administrative order," and with assistance from taxpayers' money—here, there and everywhere—no matter whether such institutions were wanted in the particular locality or not, and whether people were willing to have them or otherwise. The administrative

officer's road to promotion seemed to lie across the creation of a large number of co-operative banks, which were supposed to indicate growing prosperity of the district. And once such societies were created, they could not well be left to drift into ruin, when, artificially generated and overmuch coddled, they proved to be abortions without sufficient stamina of their own. They wanted looking after, and there was no one who could be trusted to make the limbs of the mechanical doll manufactured move with life-like motion, except the artificer who had first put it together.

It is difficult, under the circumstances, to withhold sympathy from the two Governments in question. However, what they have done is the very last way to bring about the result that they may be assumed to have desired. What title, so I should like to ask, has the State to interfere at all in the private affairs of a bank? That is not a public concern. And what business has it to make the taxpayer pay for the inspection which it imposes for the supposed benefit of the bank? The plea ostensibly put forward is, that it is to the public's interest that the bank, at which the public is invited to deal, at any rate to the extent of depositing money—for all other business is restricted exclusively to members—should be kept sound. We hear that argument now strongly put forward in Italy. However, the public is very well able to look after its own interest. It may withhold its deposits. And, really, that would be a far more effective way of bringing home to the bank the necessity of keeping things safe than inspection by a Government officer. We know in this country—because we have threshed the matter out in Parliament more than once in connection with our friendly societies—that the Government has no means of making a society solvent which is not so; and that for it to affix its stamp, as has been asked, as a voucher for solvency, would under such circumstances be altogether misleading. That applies every bit as much, if not more, to

co-operative banks. What the Government has a right to do is just what, through the agency of the Registrar of Friendly Societies, it does in this country in the case of our friendly societies and industrial and provident societies, namely, to see that the provisions of the law are properly complied with. However, as a test of solvency such examination is illusory.

I have the late Dr. Ziller, who was a high authority in matters of co-operative banking, with me in protesting that the State altogether oversteps the limits of wise policy in making inspection compulsory *by law*; and I have the evidence of all the responsible leaders of the German Schulze-Delitzsch banks on my side in declaring that it makes not a pin's difference to good banks—nor, so I am afraid, to bad—whether there is Government compulsion or not. The Schulze-Delitzsch banks have gone on just the same after the passing of the Government ordinance as before, perfecting their system of inspection, quite independently, very much more effectually than they could have done under Government pressure.

And all this is perfectly intelligible. Inspection is a safeguard if you can convince the people to whom it is applied that it is necessary in their own interest, and can, accordingly, secure their help for carrying it into effect. Such conviction is what you want to produce. Produce it, and members will welcome inspection and make it as stringent as it can be, in order that they may be gainers by it. No less powerful motive, so it may be confidently averred, will produce inspection worth having. But when you tell them, with all the authority of the law, that they *must* have inspection, or be fined, or, it may be, wound up, they must be differently constituted from most other human folk if they do not jump to the conclusion that what you enjoin, you enjoin not in their own, but in somebody else's interest, or as a matter of mere invidious interference. As a matter of fact, this is what is now being openly proclaimed in Italy. Inspection is said to be required for the protection of depositors

Members, accordingly, wince under the obligation, and, like the boy in *Punch*, who was sent for a pennyworth of Epsom salts, and asked the grocer to make it as small as he could, "because it's I as has to take it," shirk the ordeal as much as they can. They talk of it as an inquisition, and would keep back from the inspector's eye all that is irregular about the bank. There is no sense of morality to restrain people from plotting against the law. Even if they approve the principle, they may be trusted to find fault with the methods adopted, or else with the precise provisions laid down.

Accordingly, in Italy, where inspection by a central authority has not yet been tried, we have had all sorts of protests entered against making it compulsory. From the flat "No," coming from the strong banks, which need no compulsion and dread interference, refusal shades down by various gradations to the plea that only banks should be subject to inspection which receive advances of money; and only to inspection by the body which in fact has become their creditor. The peas in the pilgrim's shoes are to be thoroughly boiled down, so as to make the penance illusory.

That is not a wholesome frame of mind to put your public into. And the evil becomes greatly aggravated when the inspector provided, even as an alternative only, is a State officer. Inspection by such an officer is in truth the worst that can be devised.

In making this remark, I of course except new countries, like India at the present time, in which inspection by the Registrar is unavoidable, because there is as yet no one else to inspect. But that is a purely temporary condition of things, and should not last beyond the elementary educating period of co-operative banking. The Registrars have been sent to India to teach people how to form and how to work co-operative banks. Inspection is, in the early period, part of their *teaching*.

However, in countries in which co-operation is full grown

there is no excuse for employing a Government inspector, much less for forcing one upon banks. What you want in an inspector whose inspection is to be worthy of its name, is not only independence, nor yet professional ability, but, above all things, a high sense of responsibility and direct interest in the institution inspected. The latter two things you are not likely to get in a Government inspector. He is called upon to go his rounds, to employ his professional skill and to enforce his will—which last-named exercise of his power is apt to become arbitrary, and so to give umbrage. As for professional skill, I should like to ask whether business firms would consider themselves very much the better for having their books overhauled by an official Local Government auditor, being, I believe, a barrister of so many years' standing, selected for the office. There are very useful Government Mortgage banks in Germany, for making advances to small landowners; but one of the complaints most frequently preferred against them is, that even their bookkeeping differs very inconveniently from that of non-official institutions, which men of business understand. Be the officer's skill what it will, his inspection is sure to assume a mechanical, routine character, and to become formal and therefore, judged by a sufficiently high standard, perfunctory. His responsibility ends with his work. It does not matter to him what becomes of the bank. Nor has he any interest in keeping the bank solvent and prosperous. He has not even means of compelling societies adequately to discuss his report and adopt his recommendations, which, as coming from an outsider and an intruder, they are likely to hold in light esteem. The Government can compel the society to have the report read at such and such a meeting, and to yield formal acquiescence up to a point. But, *invitâ Minervâ*, much good is scarcely likely to result.

How strikingly different is the position of an inspector sent by a Union formed of the banks themselves! He comes, like the Government inspector, clothed with superior authority, but

certainly not as an intruder. He is one of the co-operators themselves, securely bound to the institution by his own material interest; he comes with direct responsibility due to the body of banks of which the bank inspected is one; with skill and experience of a special kind—and this is a specialist's work; he comes as an adviser as well as a judge—as an adviser whose advice is certain to be trusted and welcomed; he can not press his criticism home, like the other, with threats of fines and penalties inflicted by the State; but his clients know that, if they do not remedy what he finds amiss, their case will be discussed at headquarters, in case of persistent negligence, publicly at the congress, and, if they test their comrades' patience very sorely, their bank may be turned out of the Union. That would be a disgrace and might spell ruin. This inspector's report and recommendations are, accordingly, sure to be studied and discussed with attention, and heed is likely to be paid to them.

But our inspector does not come only with a rod, like the Government inspector. In every bank there must from time to time be difficult questions to deal with, troubling the local amateur bankers. Here is a man who inspects, it may be, a hundred or more banks, in one or other of which similar questions are pretty sure to have cropped up. Employing him means to benefit by the experience of other banks. And, as for responsibility, it would fare ill with an inspector who might allow banks to come to grief without proper warning addressed to themselves and to headquarters. It is the Union's interest, and his interest as one of the Union, that the banks should *all* be good, that every indication of bad practice should be at once taken notice of. So, on all grounds, he will be by far a superior inspector to the Government man. And that accounts for the fact that co-operative credit societies—like for instance the powerful *Bauernvereine*—which do not judge it expedient to unite for business purposes, form "unions for inspection"

(*Revisionsverbände*), in which they can at any rate have the benefit of regular inspection by a fully competent inspector o their own choosing.

I hope I have made it sufficiently clear that such independent inspection is greatly to be preferred to official inspection by order of the State, and by a Government officer. A Government department may examine returns; a Government inspector may inspect factories, or shops, for which work plain rules may be laid down appropriate to all cases. But public authorities are altogether out of place where every concrete case has to be judged on its own individual merits, where banking usages and questions appealing to men's judgment come into account, where hard and fast rules and rigid regulations lose their force. You want a business man with an open mind, a man of ample and special experience, likely to command the confidence of business men, to whom everything savouring of red tape is abhorrent.

To show what inspection by a central body should, or at any rate what it does embrace, it may be useful to quote the two typical examples severally of the Schulze-Delitzsch and the Raiffeisen Unions. Both Unions send their inspectors round to visit the banks and carry on their inspection on the spot. That is necessary. And the Unions take care to make it efficient. On the side of the societies, not only are local societies called upon to answer all the inspector's questions, give him all information wanted, and show him everything, but their governing bodies are also required to be present, or at any rate represented by some of their members, when the examination takes place, and afterwards to receive the inspector's verbal report and discuss matters with him. On the inspector's side there are very precise directions. At a recent congress of the Schulze-Delitzsch Union, Dr. Hans Crüger, who has succeeded Schulze-Delitzsch as leader of the Union, singled out for remark the following particular points, as not, indeed, exhausting the catalogue of central inspector's duties, but coming well within it and me

ing attention. The inspector is to check the accounts, carefully to compare the figures appearing in the balance-sheet with those recorded in the ledgers, review the discharge of their duties severally by the Committee of Management and the Council of Control; examine the proceedings at the annual meeting as to observance of the proper legal forms and of the resolutions passed, inquire if the rules laid down with regard to the giving of credit have been properly complied with in respect of valuation, object of the loan, securities and limits of time and amount, examine the list of outstanding credits, more particularly of such as were granted to members of the Committee of Management or the Council of Control, compare the limit set for credits to be granted with the amount of assets of the society, and inquire whether the proportion between the two is a proper one; trace carefully any credits or claims for credit which may be in arrear, and examine whether adequate security has been taken in case of renewals, and how the security taken compares with the credit; check the cash credits outstanding and report upon any "dead" accounts, which ought to be stopped; his acquaintance with the credit-value of individual members is of course limited, nevertheless previous inspections are likely to have given him some sort of insight into special cases, which it will be his duty to turn to account in his new examinations—say, in the case of doubtful or heavy credits frequently repeated or renewed; he is, moreover, to compare the proportion maintained between share (and reserve) capital and loan capital, the proper balance of which enterprising banks are often apt to neglect (1 share capital to 5 loan is, under normal circumstances, generally considered a safe proportion; however, there are banks which have been known to run it up to 1 to 10, or even 1 to 20, which is scarcely safe); he is to inquire into the proportion of "quick," or "liquid," assets, which is, of course, an important factor; he is to inquire into the agreements concluded with officers of the society, such as the members

of the Managing Committee (salaried in this Union), and whether the resolutions passed by the General Meeting, or by representative bodies, have been put into proper legal form and carried out; to ascertain if the business requirements of the Board are in every respect satisfactorily provided for; to inquire if the payment of officers is fair or excessive, more especially with regard to commissions on business or on profits allowed them (members of the Council of Supervision must not be paid by commission), and if the society provides for the needs of the employees by maintaining its membership in the Provident Fund of the Union, and also secures itself by fidelity guarantees; finally, he is to compare the actual figures obtained by his inspection of the bank books with those sent in to the Union for the annual returns, so as to prevent discrepancies.

The sum and substance of all this is, that the inspector is to inquire into pretty well everything, certainly into everything that may appear at all suspicious or amiss, so as to maintain the security of the bank and the character of the Union.

In addition to this, he is to be at the service of bank Committees, at any time consistently with his duties, for advice and information based upon his experience—which is bound to be extensive, seeing that in an active Union he does nothing but inspect all the year round; all the more so since at every annual congress of the Union the inspectors hold a special meeting or two, in which they compare notes and discuss difficult points which may have arisen.

The German law (and also the Austrian) requires that the members of the Council of Supervision should be present at the examination of accounts, etc., by the inspector. In large banks it is found that that provision cannot in all cases be complied with. But it is a standing rule in the Union that one or two members of the Council should, in any case, attend the examination of cash balances, and, furthermore, that the members of the Committee of Management and the Council of Supervision should

jointly attend at a sitting in which the inspector is to report upon the results of his examination, and discuss the various points which may arise with the members of the two bodies. At such sitting, the inspector is to enter in detail into every point which may deserve comment, and to give the representative bodies such advice and counsel as the position of affairs may call for.

As has been already observed, the inspector holds, in case of need, very effective power in his hands for punishing neglect. On the other hand, there can be no cause for apprehension that he will at all abuse his power. For damage to the bank must mean damage also to the Union, which the Union must for its own sake be anxious to avoid. There are, indeed, small Unions, indifferently led, which deliberately stretch points to avoid exposure. A well regulated Union will not do this; but it will go the length of resorting to public exposure or expulsion only in extreme cases.

Central inspection of Village banks ought, so one might be disposed to infer from the greater uniformity and simplicity which prevail, and also from the smallness of the transactions, to present appreciably fewer difficulties than inspection of active Share banks. However, the officers and committees of Village banks, being less skilled than even the amateur bankers of Share banks, require a good deal more looking after and gradual training for their business. Also, the very fact that business is based mainly on liability, with little, if any, share capital to handle, renders more minute examination even of trifles desirable. A further difficulty arises from the combination, so often practised, of banking with distributive supply, about which I shall have a word to say presently. And, in the last place, it is even more urgent than in Share banks that the annual, or else biennial, rounds of the inspector should be turned to account for educational purposes. That is one reason why the mere sending in of accounts, as it was practised in the Neuwied

Union prior to the entering into force of the German law of 1889, cannot in any case suffice. The inspector comes to the little bank saturated, so to speak, with knowledge which wants filtering into the minds, not only of officers, but of members generally. One of the objects of the little bank is to educate—to educate in banking and in business. An experienced man, looked up to as an authority, taking for his text actual business incidents, with which his hearers are familiar, can impart to them most valuable instruction by pointing out where they have done right and where wrong, and why, and wherefore. Accordingly, he is specially enjoined to impress upon the leading members of the bank, again and again, the essential points of Co-operative Credit, the nature of proper safeguards, the limits within which unlimited liability is useful, the means of credit open by recourse to the Central Bank, to explain the organisation of that institution and to urge to fidelity to it, also to fidelity to the Central Wholesale Society, and to the Union Printing Works. He is more particularly to explain, again and again, at length and in detail, the objects and organisation of the Central Bank, to meet current misrepresentations—provoked by a failure to discriminate between the unlimited liability local and the limited liability central society,—as to the liability which membership involves, to point out the advantages which mem bership and the existence of a strong financial central institutio insure; also the advantage of common purchase by the Centr Wholesale Society. And he is to give enlightenment on an other point that may appear to call for such. From all suc teaching and inspection the inspector's periodical visits gain i importance and in utility. And, as will be seen from the enume ation of questions put and points inquired into, a large numb of minutiæ make up a tolerably substantial interrogatory a examination.

The combination of the supply of goods with the dealing o of credit was at first regarded as not permissible. If there w

to be distributive business, it was required to be separated from the credit business, even though the members in each society should be the same. There is very much to be said in favour of this. Even in the small experience that we have had of experimental co-operative credit-banking in this country, I can recall several instances in which people, benevolently or otherwise interested in the supply of certain goods, proposed the formation of a co-operative bank—in towns—really as a stimulus to the sale of the articles which they desired to get rid of. That would be a direct inversion of the object of co-operative banking, a deliberate temptation to improvidence and to the abuse of credit. In country districts the temptation to similar aberration is not anything like as great, if indeed it exist there at all. There is no "shop" to which to attach the bank. It is merely a question of co-operative supply—the purchase of feeding-stuffs, machinery, fertilisers etc., or, it may be (though that is as yet only rare) of groceries and household requisites—by the side of banking. However, banking, even in its most elementary form, is a thing of such delicate poise and carefully balanced liability and security, that as far as is possible it wants to be kept distinct from *any* other business. Such principle ought certainly to be allowed to prevail where the volume of transactions becomes at all considerable. However, in many small village societies everything is of such humble dimensions that danger arising from the blending of the two currents of business can very well be guarded against. That is just what the inspectors have to see to. On account of the smallness of either co-operative service—which makes it difficult for either to stand alone, whereas the two combined may be worked by the same staff and yield one another mutual support—they have to be combined, for practical reasons outweighing the theoretical. But they must be kept strictly distinct in the books, and also in the balance sheets, as having their own separate assets and liabilities each. That wants a great deal oi looking

after. I am entirely opposed to the mixing up of the two services in their *main* channels. Indeed, I have already quoted experience which shows what danger that may lead to. However, at the little in-take stations, or "feeders," I can see great advantage in combining the two. The one will make the other "go." And the distributive service, if carried into the province of ordinary household requisites, may tend to keep the entire organism more democratic and popular, and more in line with other co-operation, which is in itself a great advantage. The small cultivator and the city artisan may by such means be brought to realise that they are brothers, and comrades in the same army, with a community of interests which will make the exchange of give and take and mutual support all the more easy.

The combination of the two services has also led to a new development, which has proved very useful to distributive co-operation in Germany, as it must do everywhere where distribution is weak in capital. By the side of Central banks for the use of local banks, Central banks have also sprung up for the use of distributive and supply societies, by means of which the legitimate credit capacity of local unions or sections may be put to practical use. However, useful as combination is where two organisations would overtax the strength of a little community, in the accounts both services must be kept strictly separate.

To give an idea of what central inspection-means among Village banks, I can probably not do better than show how it is carried out in the original Raiffeisen Union, having its headquarters at Neuwied. The number and nature of the interrogatories put are likely to astonish people new to the subject. However, we have here primitive communities to deal with, and "little things are great to little men." I have already stated another reason. Also the inspector's visit comes but once every two years.

The instructions given to inspectors in the Union named are

exceedingly precise. They address themselves to the various aspects of the business carried on, not a few to compliance with the law, which includes observance of the duties imposed upon the governing bodies of the bank by resolutions of their own and of the General Meeting. Others refer to bookkeeping. Many of the questions put are excessively elementary, and show in what may appear to some of us to be a slightly exaggerated form the extreme care taken to have everything regular, even among the most untrained people. Proof of the inquiry having been properly and minutely carried out is required in the shape of minutes, consisting of a number of printed questions with the written answers appended, to be signed both by the inspector as such, and by the Chairman, the members of the Council of Supervision, and the "Rechner"—that is, the cashier or secretary—of the bank examined. In addition to this, the inspector is also to present a confidential report, which is likewise put in the shape of questions and answers. However, both are of a confidential character, the answers embodying his own personal impressions.

As will have been inferred from the signatures demanded from the chief officers of the bank, these men are required to be present at the investigation carried out.

In the first place, the inspector is to examine the contents of the cash box, and state the precise sum found in it, down to the last pfennig. If, for any reason, this cannot be done, the reason must be explained. Next, the books are to be gone into. There is the question of the correct keeping of them, more particularly the correct transfer of entries from one to another, the keeping of a separate account for every creditor and debtor. Then there is the question of present assets and liabilities, which have to be accurately stated. The accounts are to be examined as to erasure or pencil marks appearing therein, both of which are illegal; also as to the occurrence of any discrepancies in the figures since the inspector's last visit,

or of any cash deficiency; in either case the cause accounting for the fact and the measures taken to apply a remedy are to be explained by the "Rechner."

The question of the personnel is next gone into. Have there been any changes? If so, what are they?

The "Rechner" is to be questioned as to whether he acts in the same or in a similar capacity for any other institution, and if so, for which, and whether he keeps the two cash balances distinct. The inspector is to ascertain what salary the "Rechner" receives, and if he has obtained a fidelity guarantee. Questions are then put as to what cash balance a bank keeps and what it does with it. Does it deposit it in a savings bank? Or does it keep the money idle in its own possession? If the latter, has it a safe that can be depended upon? And has it purchased such from the Union depôt? After that the savings department accounts are to be overhauled, the rate of interest paid inquired into, and the books checked. The various resolutions passed by the General Meeting, the Committee, or the Council are subjected to a special scrutiny, as to their legality, regularity and observance. The "shares" account is of course carefully examined. What is the value of the shares? How much entrance fee is levied? Have there been any changes in this respect? And as for shares, are they all paid up? And are there any undue arrears?

Then there is the lending. What loans have been granted? And at what rate of interest? And for what purposes? Have those purposes been sufficiently inquired into? And have the loans been kept within proper limits? Has the Committee observed the limits as to amount for which it has been given authority? And has the Council been consulted, as required by the rules, in respect of all larger amounts? For what terms have loans been granted? What is the security given? Are there loans secured by mortgage? If so, what steps have been taken to those advances in? For mortgages are not an approved

security. Or else, are the bonds given by the bondsmen in order? And are the acknowledgments given by borrowers themselves in proper form? And how is the debt to be repaid, by instalments or otherwise? What loans have been granted in the shape of current account? Once more, at what rate of interest? And do such accounts show business? Because, if not, they must be cancelled; there are no "dead" accounts allowed. Are there arrears on these or on other accounts? Or are instalments punctually paid?

Next there is the question of business with other banks. What is the state of the account of the bank with the Central Bank? How do the two balances stand? And has the bank done business with any other financial institution? To do so would be contrary to the rules. However, if it has been done, which is the bank and what have been the transactions, and what has been the rate of interest? Has the bank any business relations with the Union Printing Works—as it should, if it has any printing done? And are its accounts with the Central Bank and the Union Printing Works perfectly in order? Or else, are there discrepancies?

Then there is the supply department. Are the accounts of the two departments kept strictly separate? And, supposing that the banking department has guaranteed a member's credit at the supply department, has that credit been kept within the limits decided upon, and how is it secured?

There is the management account. Are the management expenses for the two branches kept carefully distinct, and on what principle are they allocated? Have there been losses on the management account? And if so, how have they been met? Have all the goods supplied by the supply department been paid for, as they should?

There are special questions put down, the answers given to which are to show if the governing bodies, the Committee of Management and the Council of Supervision, have performed

their duty in all things and whether General Meetings have been called as provided in the rules, and if they have been regularly conducted. The resolutions there adopted are subjected to inquiry to ascertain if they are altogether in order, and further inquiry is made to show if those resolutions have been acted upon. Also the inspector's last recommendations and any recommendations made by the Union or the Section are brought up, with a view to ascertaining whether any irregularities or abuses therein pointed out have been remedied.

There is plenty more. Most of these men want instructing. And if the printed questions asked have no direct bearing upon what has actually happened, they will serve as useful fingerposts for the road to be followed in the future. In other Unions possibly the heckling is not quite as severe. But the Neuwied Union, which pursues other objects besides the purely economic, makes a point of having everything within it strict and uniform, supervised from headquarters, and agreeable to what are there recognised as cardinal principles of the Raiffeisen co-operative creed.

The confidential report asked for from the inspector deals with difficult points in a distinctly personal way. In it the inspector is invited to state what he thinks of the conduct and management of the society, whether the machinery works smoothly or roughly, whether any of the office-bearers have claimed credit from the society, and to what extent, and whether they are punctual in repaying?

Of course the inspector is expected to admonish the officers in the bank with respect to any irregularities, or approaches to points of danger that he may have detected, and to urge them to fidelity to the parent institution. In respect of supply, he has quite a budget of questions, explanations, and exhortations entrusted to him in his confidential interrogatories, to ascertain by inquiry, if a stock of warehoused goods is required, whether common purchase may be pushed in respect of new articles, such as coal, whether there is room for the purchase of imple-

ments and machinery, either for sale or for common use. Without becoming unduly inquisitive or pressing, wherever the matter seems doubtful, he is to keep a sharp look-out for new openings for co-operative services, by means of which the Union might be made more useful to members and to the public.

Such inquiry seems minute indeed. However, it is much easier to drop out points as members of local banks advance in business knowledge than to put in new ones, at what must in such cases be personal discretion for, so to call them, elementary classes.

It is very much better that, if a fault be assumed, there should be excessive inquiry than that there should be too little. For checking and control are as the breath of life to co-operative banking. The more its business is carried on in the broad light of day, visible to all eyes, the safer will it be. Business that wants to be done in private, and on trust, is for capitalists, who have ample material security at their command, and who do not require co-operative banks. The best proof that inquiry is, even in the Raiffeisen Banks, not carried beyond what is tolerable is to be found in the fact that it is nowhere resented, but rather welcomed, because it is known that the inspector brings safety and valuable instruction. And the proof that it is effective is to be found in the results, which show safety and smallness of losses to be one of the chief characteristics of co-operative banking. Certainly, what has been told in this chapter ought to make it clear that there is very effective checking machinery available, and that, although acting entirely by and for themselves, members of well regulated co-operative banks need not be left to their own elementary guessing at business principles, but may have efficient expert guidance to trust to.

CHAPTER IX

CO-OPERATIVE MORTGAGE-CREDIT

THERE is one form of credit, older than the time of Solon —who put his *seisachtheia* in force against it—and proclaiming its universal necessity by overspreading the whole civilised world with its heavy burden, which is so peculiarly suited to co-operative methods, that what one has a right to wonder at is, not that in its co-operative form it has to day become as general as it is, but, on the contrary, that it has not been adopted everywhere. Dr. Felix Hecht, who is a special authority on the subject, puts the amount of more or less co-operative mortgage liability, outstanding in Europe in 1897, at more than £950,000,000. What the amount of old-fashioned non-co-operative debt was, standing by the side of it, he cannot of course estimate. What strikes one in looking over his list is, that there is not a line given in it to the United Kingdom, which, nevertheless, if we may accept the testimony of an Irish writer conversant with the subject, had in or about 1893 more than £900,000,000 * secured by mortgage upon its land.

Mortgage-credit is at the present time one of the best discussed subjects of the day. Changes in the value of agricultural produce and in the yield of agricultural land have brought its burden painfully home. Oddly enough it is most discussed where, under the adoption of appropriate methods such as co-operation supplies, its pressure is steadily yielding; very much less so in countries, like our own, in which inconvenient and very costly methods, persistently adhered to, keep it at its

* H. de F. Montgomery:—"The Organisation of Real Credit."

old figure. In Germany, where statistics show that the burden of mortgage debt is not nearly as great as is habitually represented—advisedly with the object of obtaining State help by drawing an exaggeratedly gloomy picture—it is sometimes spoken of as the main cause of assumed agricultural distress. But it is Germany, of all countries, which has taught us how easily by co-operative methods mortgage-credit may not only be kept in check, but so effectively got rid of, as almost already to verify the sanguine prediction with which M. de Persigny in 1860, as Minister of the Empire, inaugurated the ill-fated *Crédit Agricole*, declaring that, thanks to such action, the day might be foreseen when the burden of debt heaped upon land by preceding centuries would be finally cleared off.*

One brief word may be permissible upon the general merits of mortgage-credit. Mortgage-credit is often spoken of as an unmixed evil, a result necessarily of previous extravagance or of imprudence, a very millstone tied around the land-owner's neck, and hopelessly dragging him down. It is quite true that it may become all this. But it may also be, as it has become in not a few cases, the foundation of great wealth, and the efficient cause of the productiveness of the very land which it appears to burden. We did not complain of our mortgage debts when there was a just proportion maintained between debt and security, rate of interest and yield from land. Land wants money, to bring out its productive and wealth-engendering properties. And never did it want it more than in the present day, when Jethro Tull's primitive theory having been thrown overboard, everybody recognises in the land the workshop rather than the ultimate nourisher of plant-growth, and the most successful farmer is reckoned to be he who has the largest working capital at his disposal, and who knows how to employ it judiciously. Now, once money has to be raised for such useful

* "On peut prévoir le jour où le sol sera affranchi de la dette hypothécaire que lui ont léguée les siècles."

purpose, the most natural and most legitimate source to supply it may be held to be the land itself. Thanks to convenient credit arrangements it may be made so, and there can therefore be nothing inherently wrong in pledging the land as security for its own working capital.

An example drawn from practical rural economy, which has a special bearing at the present time for ourselves, while we are anxious once more to make the land the home of the many, the workshop of myriads of small cultivators—who can turn it to best account—may help to make my meaning plain.

We talk very volubly of the peculiar merits said to attach to our accepted national system of landholding and tenancy, which, as is affirmed, places the land itself at the cultivator's—that is, the tenant's—service, at a fee for its use, which he himself, poor man, could never afford to be content with, and so leaves him with all his little capital free for application to more profitable employment as working funds. That plausible explanation vividly recalls Mr. Disraeli's scarcely felicitous phrase, employed when introducing the very inadequate Agricultural Holdings Bill of 1875. Our system, so Mr. Disraeli urged, enabled us to take "three livings" out of the same piece of land, to wit, the landlord's, the tenant's and the labourer's. Where, so I should like to ask, are those three livings now?

I think I can produce evidence to the point on the other side. Fortune, as it happens, settled me for some years as a cultivating owner of agricultural land in the midst of a multitude of other freehold owners—owners of freeholds of all sizes. And, as a matter of course, I felt moved to compare the relative effect of each distinct system—the one prevailing in that region, and ours, which I had been taught to regard as the orthodox faith in matters agricultural—and to test the result of each as expressed in figures. Now, assuming the foreign freehold of the medium or small cultivator to be fairly mortgaged, I found that the amount paid in annual mortgage-interest was a little

less than the rent which a tenant in our country would have had to pay on a property of the same size and kind. That left the freeholder with some small balance locked up in his land. But it also left him a thoroughly independent man, subject to no oversight or interference, unfettered by covenants, not liable to be turned out, free to cultivate as he pleased, to buy and sell what he pleased, and having the certainty that for every penny or every effort bestowed upon improvements he would have his full return, in grist or in meal—in heavier crops, it might be, if he retained his property, or else in a better price, were he to sell it. And not by such return alone would he be the better than his tenant brother; for every increase in value by betterment or unearned increment would likewise go into his pocket. All things considered, it struck me that the moderately encumbered freeholder must be held to be the better off of the two.

It would not be difficult to quote other cases, many of them applying to large estates, in which a mortgage, judiciously laid out, has enabled the owner to put his undeveloped property into condition, and produce from the debt value representing its amount several times over.

Unfortunately, it is not for the purposes indicated that mortgages are invariably raised. And it seems impossible to do by Act of Parliament what over-wise men in Germany are now attempting so to accomplish, namely to put the owners of land in leading-strings and limit their mortgage-raising to distinct stated objects, circumscribed in amount as well as in application. However, what an Act of Parliament cannot accomplish, appropriate methods of mortgage-credit can, so experience has shown, achieve very effectually and easily. And herein lies the value of those co-operative methods of which I shall now have to speak, almost to a greater extent than in the mere facility provided for raising loans. It will be easy to show that, although other methods may secure *partially* the

same results, the *full* benefit has thus far—and probably can be—attained only by means of Co-operation. And that for a very simple reason—namely that only Co-operation can fully identify the borrower's interest with the lender's, and place, as in the case already quoted of Scotch cash credit, an efficient guard of fellow-borrowers over the individual borrower, bringing irresistible pressure to bear upon him, in his own interest, not only to restrain his operations and keep them within the bounds of prudence, but also systematically to reduce his own debt by regular repayment. Hence co-operative mortgage-credit comes upon the scene as the great reliever and emancipator from burden, the rust of the same spear which first struck the blow, which now heals the wound produced, almost without exacting any sacrifice.

Now when I speak of mortgage-credit in this connection, I must be understood as meaning mortgage-credit dealt out by special particularly appropriate methods. Co-operative institutions may lend money on mortgage in other ways, acting as mere ordinary capitalist bodies. And partly legitimately, partly imprudently, they actually do so to a more or less considerable extent. Among German co-operative credit societies it is a standing complaint, that very much more money than should be is invested in mortgages, resulting in the locking-up in them to a dangerous extent of capital which they may be called upon to repay—simply because, from ingrained habit, their managers have been brought to look upon mortgages as the safest class of investment. Italian People's banks do the same thing, but at any rate they safeguard their interest as bankers by raising money specially for such purpose by means of long term bonds. That is, of course, an improvement upon the German practice, but it still leaves the mortgage-credit simple ordinary capitalist credit, without any check upon the borrower—capitalist credit securing none of the advantages which, as I shall show, the borrower has a right to look for; and, in all probability, it

will turn out to be of insufficient duration, because ordinary bankers' bonds cannot well be made to run for the great length of time that is required for a mortgage. In such instances, the body making the advance is co-operative, but the method is capitalist.

A more justifiable instance of ordinary mortgage-credit engaged in by co-operative banks, though the amount concerned is only small, is that of the French *caisses rurales*, which have advisedly stepped into the field to protect the small rural mortgagor from unduly heavy interest. In respect of large mortgage-credit, as M. Ribot has shown in an interesting report communicated to our Government *, the powerful *Crédit Foncier* acts very efficiently as a general regulator of mortgage-interest. Individual lenders cannot keep up the rate of interest against it. However, so large an institution cannot very well trouble much about small proprietors' business. The trouble is too great, the recompense is too small. Accordingly, the small proprietor was still left to look for his loans only to individual capitalists. And, without any competitor in the field, the capitalist lending to small proprietors would not come down with his interest, but went on charging at the rate of five per cent, when three would have been in accordance with general usage. Under such circumstances, M. Durand thought it right to authorise his *caisses* to intervene. As I have already shown, they have a very large amount of "good lying" deposit money to rely upon, which is brought to them in such quantities as they may require, at 2½ per cent interest. So they could well afford to lend at 3 per cent. They did. And, as M. Durand has assured me, that has brought the capitalists to their senses and led them to reduce their rate of interest.

Before proceeding to describe those useful methods to which I have already alluded, I should like to put this question: what

* "Report from Her Majesty's Representatives Abroad on Institutions for making Advances on Real Properties." (C.—6314). 1891.

is it that the agricultural mortgagor, mortgaging his land for remunerative purposes, has a right, or at any rate a legitimate interest, to look for as constituting an ideal mortgage liability? It certainly is not what he obtains now. For while credit is individualised, it is the *lender* who dictates the terms. In the matter of interest, the money market may to some extent determine the actual price to be paid, but even on that point, if there be a case of need, the borrower is likely to find himself at the lender's mercy. He has not at present the right to go to any particular institution, and say, good times or bad: here is my security, now give me a proportionate loan at the current market rate! He will certainly not be able to insist that the loan shall be granted, without liability to be called in, *for as long a time* as—since it is to be remuneratve—he may require it. Nor will it be made a matter of *his* choice when he is to pay it off. Above all things, no lender on mortgage is at all likely to agree to the borrower repaying his debt piecemeal, by small instalments, much less by terminable rent-charge. But all this is what the borrower wants, if he can get it. To leave it to the lender to call in the loan, places the borrower in an altogether insecure position. He is put to considerable expense, for his solicitor's benefit, on first negotiating his loan. He has to prove a title, to produce a great amount of information and pay for the agreement, all of which runs into money. Now suppose that the debt is called in. He may be put to all the trouble and expense over again. He may have his debt, raised at a moderate rate of interest, called in when money is dear, and he will then have to pay more. And, in any case, he will have to repay the money in one lump sum. Now, his own interest is to get rid of his debt gradually, and by as small an expenditure of money as possible. A Mortgage bank of Stockholm, formed as long ago as in 1668, has the credit of having first applied, in 1754, the same method that is familiar to ourselves or redemption of the National Debt, namely by terminable

annuities to mortgage redemption, enabling borrowers to repay, at $\frac{1}{2}$ per cent sinking fund p. a., *in 55 years* what that same $\frac{1}{2}$ per cent, paid simply by way of instalment, would have repaid only *in 200 years*. But you cannot expect individual lenders to lay out their money in terminable rent-charge; you cannot expect them to tie themselves down to sixty or seventy-five years of running time, nor to bind themselves, never, on any pretence whatever, to call in the debt, so long as the borrower carries out his obligation. You cannot expect them to make you the advance without reference to their own convenience, simply when you want it. If you would have these things, you must go to some institution which is in a position to concede them without damage to itself. And the best institution of such kind is, as I shall show, one formed collectively by your own class, by those who, together with you, stand in need of borrowing, and would borrow cheaply, conveniently, and with full liberty left to themselves, while being secured against any inopportune demand for repayment.

And that is because only such an institution can consent to be repaid by annuity, and can, without very hampering interference, provide for the lender of the money an absolute guarantee that his interest will be safeguarded. Just as in all other co-operative credit, the main merit of this particular form of it lies less in the substitution of wholesale dealing for retail, than in the interposition of a body between borrowers and lenders, which, although composed exclusively of borrowers, has a supreme interest in safeguarding the lenders' interest. By the very fact of the borrowers all going bail for one another, they become in each distinct instance a body of, say, 999 lenders opposed to one borrower. Their common class interest demands that they should endeavour to obtain the largest possible advantages for each borrower. But on the other hand their liability engaged also commits them to watching with extreme vigilance that not in any case shall safety be jeopardised. The

burden of any loss occurring would infallibly fall first of all upon themselves. And that is why it is not only wholly off the point, but also absolutely preposterous to suggest, as has been recently done in some quarters *, that in the deliberations of such a body the lenders of money, as well as the borrowers, should have a voice. To suggest this is to misunderstand the whole mechanism and object of the institution. The lender's interest is safeguarded by the borrowers' liability. If that does not satisfy him he has his remedy in his own hands. He simply need not lend. To give him a voice in the proceedings would be, not to improve, but directly to damage his security, by weakening the responsibility which lies upon borrowers.

It is essential, under this aspect of the case, that the liability of borrowers should be very substantial. For the larger the liability, the more confident may the lender be that his interests, being protected by those of the combined borrowers, will not be endangered. Collectively these men have it in their power to give him in each case an absolute guarantee. And they should not grudge making it absolute. For the better the guarantee that they give, the greater will be the confidence of the public, the more readily will it be accepted as security for advances, and, accordingly, the better and cheaper terms will the collective body of borrowers be able to obtain for each one of themselves.

For what has long been regarded as an ideal institution of this kind, and what certainly is an exceedingly good and most successful one, the prototype of all others since formed, we must go to Germany. The Prussian *Landschaften*, far famed in the economic world, are societies of land owners which, becoming endowed with certain privileges granted to them, as an encouragement, by the State, combine for the one purpose of borrowing money on mortgage, on the cheapest and most

* In Denmark.

convenient terms possible, which in every case include those points for which in the borrowers' interest I have just contended. They are societies of borrowers, nothing more, borrowers having their own self-governing form of organisation, in which nobody interferes. For the State's right of examining their accounts sits on them very lightly indeed. Good management and full publicity make it dispensable. They receive no subvention from the State, or from any one. Their own combined liability is amply equal to any call which they may have to make on the capitalist market. Their utility is beyond question. They have multiplied to nineteen in Germany, and more without. And the very fact that, as Dr. Hecht shows, of about 5,000,000,000 marks of land bonds out in Germany, as much as 1,900,000,000 marks was issued by them proves that their services are highly appreciated. The fact that the idea of them was conceived in the eighteenth century, immediately after the close of the Seven Years War, and had to be adapted to circumstances which are now a thing of the past, fully explains why they now present in the forms adopted, varying not a little among themselves, not a few features which appear exclusive, cumbrous and antiquated. But none of those features touch essential points. They do not affect the principle; and in some cases they have been already discarded with impunity.

We shall have to bear in mind that in 1769, when Frederick the Great almost forced this institution upon his newly acquired province of Silesia, as a boon to the large landowners, the whole structure of rural economy was in Germany still entirely feudal. The measure *could* then apply only to large landowners, owners of "knight's estates," or "noble estates," because only such men were, under the Crown, full owners of agricultural land. Nobody thought of towns or mere buildings. The peasantry were serfs. Their land was not their own. In their backward state they could want no money to develop it; certainly they were not in a position to make themselves liable;

and liability was what was wanted as security for the money. They had to be simply passed over.

There were other reasons why *Landschaften* must be clothed in a feudalist garb. Frederick the Great did not intend to endow the *Landschaften* with money. He had paid various mortgage debts for embarrassed landowners out of Crown funds, or else out of his privy purse, and probably had little left to spare. If that was the reason for his withholding a subvention, it was fortunate; and it is even more fortunate that the Prussian constitution of 1850 explicitly debarred the State from endowing similar institutions, or guaranteeing their bonds, from thenceforward. One *Landschaft,* that of Posen, now defunct, indeed did receive a State advance of £30,000, which was soon repaid. And one institution was formed by the side of the Silesian *Landschaft,* in the same province, with State money, which had on the ground stated to be wound up. But that is all of such a kind that has ever been attempted in Prussia. Of course, for their purpose of credit, the landowners' combined liability constituted quite sufficient security. But the problem was to make it fully *effective.* And that meant that there must be full and free self-government among those who were collectively to go bail for one another. And that once more meant that to the responsible posts in that self-government—which were purposely invested with great dignity, and which entitled to the exercise of not only high administrative but really judicial functions—only people should be nominated in whom the Government and public opinion might freely repose confidence. Now the only persons qualified for such service—barring officers in the service of the Crown, whom the principle of self-government excluded—were then held to be the squirearchy, who were already magistrates in their own right, to some extent "patrimonial" judges, and who managed the affairs of counties and provinces. Quite naturally, moreover, would their new institution have, on some points, to work hand in hand with more ancient feudal institutions, that is, with the

"Estates" of the province—whose bank in some instances renders the *Landschaft* very useful service. Their work was likely to dovetail into that of the "Estates," and, accordingly, it was of practical advantage that their institution should be composed of the same human material.

The privileges granted, more particularly to the older *Landschaften*, with a view to making self-government and common liability effective, were very comprehensive. But they were considered to be called for by the business which the *Landschaften* were designed to transact. It may therefore be convenient first to explain what that business was to be.

The governing idea was that the whole of the landowners of a province, or part of a province, being all of them actual or possible borrowers, pooling their liability, and, so to put it, going bail indiscriminately one for another, would create a volume of security absolutely proof against all mischances, and capable of commanding money at all times at a cheap rate of interest. With a view to providing ample, overwhelmingly adequate security, at first very wide ground indeed was taken. In Silesia every owner of what is called a "knight's estate" was by law compelled to become a party to the general liability. And it will have to be borne in mind that up to 1889 in Germany all personal liability—which was in this case of course pledged, together with the real—was, as a matter of necessity, unlimited. For the German law then recognised no limited liability. And unlimited liability has automatically remained in force since 1889 in societies and institutions which have not in this respect specially revised their rules. Thus, even within the past forty years, when the Silesian *Landschaft* took power to make advances on the property of peasants, who are themselves debarred from becoming members of the *Landschaft*, in respect of loans contracted on such, so to speak, outside property, it actually pledged all its members' rural property, all its own realised reserve capital, (which had by that time become

considerable) and its members' personal liability as well. Very much of this pledging has, in the result, been shown to be quite superfluous. The very next *Landschaft*, or rather *Ritterschaft*—but it is the same thing under an other name—formed in Brandenburg, strongly demurred to the idea of every landowner becoming compulsorily a member and a bondsman. The rule has since become general that only those who borrow shall, by the very fact of their borrowing, become members and liable. And since valuations are very carefully carried out, and limited to the actual business value of each, property, not the possible sale price; and, since in the best case only two thirds of the value so ascertained is advanced upon the estate, there is ample margin of liability even under such limitations. To make still more sure, in later times, as early cramping liabilities and compulsion on every landowner to join were dispensed with, additional provision was made by the institution of a special reserve fund, going by the name of *eigenthümlicher Fonds*.

The original idea was simply one of bail-going. Under its sway a mortgage was taken out on a specific property. One binding condition, laid down from the outset, and since adopted in every similar institution, was, that not for a penny more might land bonds be issued than there was capital advanced on the property pledged and to answer for the value, so that there might always be full security for every liability accepted. Furthermore, to keep out profit-seeking, the rate of interest payable on the mortgage pledged was made to correspond exactly to the interest paid on the bond representing that mortgage. Originally, then, mortgage bonds were made out in respect of particular properties, the names of which appeared on the face of the bond. There was nothing settled about repayment by sinking fund. The bonds, and, correspondingly, the mortgages, were subject to notice. All that the *Landschaft* did was to pledge itself, so to speak, collectively by endorsement for every particular amount.

By degrees these things were altered. Notice to repay was abolished, and in return compulsory "amortisation" was imposed. The business, then, now stands in this way, that any landowner of the class for which the society was created has a *right* to claim a loan on the security of his land at any time; the *Landschaft* values that land by its own valuers, and, if the amount of capital offered, which is strictly regulated by the valuation, should satisfy the applicant, he receives his loan down in bonds or cash, as the case may be, the loan running for a fixed number of years, within which he need dread no notice, so long as he performs the duties which he has contracted for. He knows the precise number of years for which the debt will run, and he knows the rate of interest which he will have to pay, which *cannot* be raised. He himself is free to pay off the whole of his debt, or part, at his own choice. And it is understood that he pays the sinking fund, the amount of which (as a rule ½ per cent) regulates the length of time for which the debt will run. Since he receives his money at the same rate that the *Landschaft* pays for it, of course he is made to pay a trifling contribution towards management expenses and reserve fund; and there are also certain fees and commissions, none of which amount to much, to provide for outgoings. Of course also the applicant has the valuation to pay for; but the cost of that is trifling.

To raise the money required for such mortgage the *Landschaft* issues bonds, which are redeemable by drawings, as sinking fund money comes in. Such bonds are, for convenience sake, issued in distinct "series." That is not only convenient for purposes in account and control; it also enables the *Landschaft* the better, when times set in warranting such course, to reduce interest—which is always fixed at the same rate for each particular "series." Furthermore, the division into "series" permits what may be called a provisional or conditional limitation of liability, since every "series" is dealt with as a distinct issue, having its own management fund, reserve fund, and sinking fund.

It is therefore really as a reserve that the liability of the other "series," that is, of the entire *Landschaft*, is made effective as a protection to the lender. The usual practice is to pay out his money to the borrower in bonds, reckoning them at face value. Some *Landschaften* have made it a practice to pay in money. Among such was the Brandenburg *Ritterschaft*. But when, at a time of depression, bonds went down to 75, the practice proved bad business. At the present time, so far as I can ascertain, only three *Landschaften*, all of them established within the whilom kingdom of Hanover, pay in money as a matter of course. I may at once add that, although, during short periods, *Landschaft* bonds have sometimes been depreciated, generally speaking they rule at least as steady as Government securities, and have often been over par.

The two transactions, then, of lending to members and borrowing on bonds, are now kept strictly separate. The three Hanoverian *Landschaften* referred to do not even issue land bonds, but simply debentures. In any case, the *Landschaft* as a whole takes over the claims, like a banker, and pledges them to holders of land bonds on its own account. The whole business is thus centralised. Some of the *Landschaften*—not including that of Silesia which, I believe, is still the largest—in 1873 went further in the direction of centralisation, and, appropriating to themselves the principle which has consolidated all Mortgage bank-lending under the French Act of 1852 in the *Crédit Foncier* of Paris—in order to provide a better known and more marketable security—formed a *Centrallandschaft*, which issued bonds on behalf of them all. The idea did not prove a happy one. A co-operative *Landschaft*—which is the German type—is not a joint stock company—like the French Mortgage banks combining in 1852. The result showed that a certain amount of local individuality, identification with a certain district, is necessary. In co-operative banking all depends upon the certainty that the checks prescribed will be conscientiously

applied, that everything that is done will be vigilantly supervised and controlled. And for that a certain local limitation is necessary. Of the eight *Landschaften* which originally joined the *Centrallandschaft* only four now remain within it, being *Landschaften* whose districts are so closely grouped together around the central province of Brandenburg that common action is practicable without inconvenience.

Such being the business of the *Landschaften*, we shall have to consider the organisation adopted for carrying it out. That organisation is simple enough; but privileges accorded to it—among other things the status of members of the public service conferred upon its officers and employees—invest it with a certain prestige. The offices pertaining to the institution have in this manner become offices of dignity and distinction, conferring a high rank in the official hierarchy of the country. Strongly centralised as the system is, each province is parcelled out into districts, which have their own *Landschaftsdirector* and members, meeting at the *Landschaftstag*, to decide matters. By the side of the *Landschaftsdirector* are two *Landesälteste* for each "circle," who are, so to speak, the "aldermen" of the *Landschaft*, and who in addition carry out the valuations. The various districts (which often have their own *Fürstenthumstage* and the like) are united in a *Provinziallandschaft* which has for its head a *Generallandschaftsdirector*, whose position is one of great authority. What little State supervision there is, is generally exercised at the apex of the pyramid by the President of the province. Apart from that the *Landschaft* is strictly self-governing.

One of its most important duties of course is the valuation of properties on which advances are to be made. For, whatever other precautions be taken, all will become devoid of value if the property be not put at a safe price. On the other hand, to keep the valuation too low would be to defeat the main object of the *Landschaft*. In my opinion the *Landschaft*'s method

of valuing constitutes one of its greatest merits. I write about it as I have seen it practised, in Silesia, the *Landschaft* of which province, as it is the oldest, and probably the one doing the largest business, certainly is also one of the best organised.

Since there is a very elaborate system of valuation for land tax in force in Germany, one might infer that such would be sufficient for mortgaging proposed and that no special valuation would be needed. As a matter of fact, several institutions dealing in mortgage-credit, including four *Landschaften*, actually do accept land tax valuation as a criterium for themselves. Thus the *Landschaften* of Prussian Saxony and Schleswig-Holstein will advance twenty times the annual net income estimated for land tax, that of Westphalia twenty-two times that amount.

However, land tax valuation is not very much to be depended upon in Prussia, and only few purchasers accept it as a standard. It is more trustworthy in Saxony, and there, indeed, the "assessment unit" *(Steuereinheit)* often enough decides the purchase price. The *Erbländischer Ritterschaftlicher Creditverein* of Saxony, which is a *Landschaft* under another name, and the *Landständische Bank* of Saxon Upper Lusatia, which is an endowed and guaranteed body, both accept the *Steuereinheit* without demur, giving half the value which it indicates. The *Landwirthschaftlicher Kreditverein im Königreich Sachsen* likewise accepts the *Steuereinheit* as a standard for its lending, but as, in its own interest, it can take the *Steuereinheit* only at a moderate valuation, that is, at forty times its figure, it follows that, limiting its credit by rule to three-fifths of the value of the property, it can advance only twenty-four times the amount, which does not always satisfy borrowers. Hence it has, for the most part, in the end had to fall back upon valuation by its own valuers.

In truth, that is out and out the best form of valuation for credit purposes. For although valuation for land tax is likely to be carefully enough carried out, the men to whom it is

entrusted have no direct interest whatever in the result, scarcely any responsibility in the matter. Their valuation is for that very reason apt to become mechanical. In the valuation by the *Landschaft*, men are employed who have a direct and very substantial interest in the result, and who will be held responsible for the conclusion at which they arrive by their compeers, for whom avowedly they act, and among whom their lot is cast. They are, so to put it, the best men of the *Landschaft* that are to be found, and who have sufficient leisure to devote to the work—landowners themselves in the *Landschaft* district (though not necessarily in the particular "circle"), settled there some time, therefore persons who can be trusted on the ground of their personal standing and character, and as experts alike on agricultural and on local matters. They are specially elected for their office, on the ground of their competency, by the men whose interests are to be committed to their keeping. Theirs, accordingly, is not a "job." The consideration which they receive—expenses and so much a day—is trifling indeed for men in their position. It is the distinction of the office, and the interest in a cause which is their own, which make them undertake the work. That, shows that, on the whole, it is not altogether bad economy sometimes to pay people in "distinction" and status, instead of in money. But, even without such purely honourable recompense, these men could not lose sight of their reponsibility.

Of course all that they can take into account in their valuation is the actual agricultural business value of each property. That is, as a rule, now considerably below the possible selling price—so much so that a two-thirds' advance, which is the maximum to which the *Landschaft* allows itself to go, ordinarily means only about half the market value of the estate. However, the market value is, of course, subject to fluctuation, and could never form the basis of valuation for purposes of credit. The valuation is, however, made to include all sources of

regular and dependable income, for instance, standing timber. Buildings are generally taken at their valuation made for fire insurance, by the provincial *Feuersocietät* or *Brandkasse*, a public body rather similar in organisation to the *Landschaft*, formed for purposes of insurance.

Of the value ascertained, the *Landschaften* are always ready to advance one half, but they have power to extend the limit, within their discretion, to "the fourth sixth," which is generally conceded. Acceptance of the loan imposes the obligation not to allow the property to deteriorate—among other things, if there be timber, not to cut down more than sound principles of forestry permit. Therefore, in case of felling, notice has each time to be given and approval obtained. Acceptance of the loan also implies liability to pay interest punctually at the rate fixed for the "series" into which the particular transactions falls, and at the same time the sinking fund, which eventually wipes out the debt. However, the owner of the property is free after a time to apply, on the same valuation, for a return of what he has paid in sinking fund, practically carrying the mortgage debt back once more to its first point. He is also free to ask for a revaluation, on the supposition that his property has increased in value.

The valuation having been made and the loan granted, what the *Landschaft* has to watch over is, that the conditions implied in the latter are properly carried out and the property is kept up to its valuation point. It is the better to enable it to do this, mainly, that rights have been conferred upon it which constitute it a privileged, self-regulating body, something like a State within the State. The mere fiscal exemptions conferred upon it, of course, stand for something. There is no stamp needed on its bonds, and it is exempted from certain other charges. But there are more substantial privileges, which mark it off distinctly as a body *per se*, and give it a superior status. Thus its officers rank as officers of the Crown, which adds

materially to their authority and prestige, and invests them with very useful powers. For instance, they are entitled to call upon other public authorities, administrative or judicial, to furnish any official information which may be required, relating either to persons or to properties; the deeds of the *Landschaft* also rank as public records, requiring no certification or sanction by any public authority; above all things, in the event of the borrower failing to fulfil his duties, or allowing his property to depreciate, the *Landschaft* may foreclose, or appoint a receiver, without waiting for a judgment order from a Court of law, entirely of its own motion. These are far-reaching privileges, such as it is not likely that a Legislature would grant to a newly formed body in the present day. No hardship has, however, been known to result from their exercise. The more drastic attributes conferred represent extreme rights, which are reserved for extreme cases. No doubt all these powers, however exceptional and, it may be, exceptionable, have been of substantial assistance to the *Landschaften* in making good their position, and in running that course of brilliant triumph and success which to-day constitutes their best claim to consideration.

Of the fact of such success there can be no doubt. It has in truth proved phenomenal. Money was only with difficulty obtainable at all in Silesia in 1769, when the Silesian *Landschaft* received its charter, at the rate of 10 per cent, or more. The *Landschaft* issued its land bonds at 5 per cent and at once found a market for them. The Brandenburg *Landschaft*, opening its office eight years later, under the name of *Kur-und Neumärkisches ritterschaftliches Creditinstitut*, found that it could go down in its rate of interest to 4½ per cent. The new security became a valued investment among capitalists, to whom it came as a boon, and who have poured millions into it, till to-day the sum invested in such securities stands at something like £100,000,000, to the great benefit of Agriculture. The effect became at once apparent, amid the distress

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caused by the devastating Seven Years' War. It was even more marked in the troublous period of depression—troublous at any rate for landowners—which followed the introduction of Stein's otherwise beneficent emancipating laws, that is, in the period from 1807 to about 1820. Serfs were then emancipated, land was liberated from feudal over-rights; but also landlords' land, more especially forests, had to be freed from peasants' common rights. Much money had to be paid down; the *Landschaften* provided it. Once more the *Landschaften* made themselves appreciated as "saviours in need"—as they have been called—in the succeeding two decades, when the price of corn went down to a figure which had previously been held to be quite inconceivable. And, generally speaking, the price of their bonds has continued to advance. There have been times of tight money, marked by a want of confidence, when quotations fell below par—once or twice considerably so. But, as a general rule, land bonds have ruled steadier than even Government securities, and about as high, sometimes higher. And their issuers know why. When, on one occasion, a suggestion was made that a guarantee from the State should be asked for or accepted, the members protested that they could not afford to have their credit made dependent upon the credit of a body mixed up in political questions, since that must necessarily mean danger of fluctuations in the price of their issues.

There are now nineteen *Landschaften* proper in Germany. In Prussia, the parent country in this matter, there are only two provinces, both pronouncedly industrial, which have not got one. And both have substitutes in the shape of endowed "Land banks." And no one, neither landowner nor capitalist, ever wishes to be without them. There are not a few cognate bodies, formed after their example, besides. Some of the *Landschaften* have, with questionable policy, extended their credit business to a small extent to lending on personal security, on the plea, of course, that their own districts—East Prussia, West

Prussia and Posen—are insufficiently provided with co-operative societies for personal credit. (It is satisfactory to know that the number of such societies is now steadily increasing. It is best for every institution to devote itself to its own particular business only.) And the institution has pushed its way into foreign countries in almost all directions of the compass. From Prussia, other German States have adopted it—Hanover, and Saxony, and Wurttemberg, the two Mecklenburgs, Brunswick. The Wurttemberg *Landschaft* was the first to cast off the shackles of unlimited liability, which are not required. At an early date also the *Landschaft* found its way, in a modified form, into Russia, where it was badly needed, and where, in course of time, it has been quite explicably overtopped by State institutions. However, the mutual mortgage loan institutions formed for Esthonia in 1802, for Livonia in 1803, for Poland in 1825, and for Courland in 1832—in each case, it is true, with liberal grants from the Czar—were without doubt copied from the Prussian *Landschaften*. So successful were the operations of these Russian societies deemed to be, that a Committee of Inquiry, appointed in 1859, in its report strongly recommended the creation of more "mutual" institutions, in preference to any others. "Mutual" the Provincial Bank of Kherson was intended to be, which was started in 1864 and soon, that is, in 1867, had three additional "governments" added to its district. It advanced money up to half the ascertained value of property pledged, charging a commission of ½ per cent for management expenses and reserve, enforcing redemption of the debt by sinking fund in either 35 or else 36½ years. Its business came to be considerable. In 1890 it had 49,038,000 roubles outstanding in 5½ per cent bonds, and 17,102,900 roubles in 5 per cent, having then accumulated a surplus of 4,152,000 roubles. At that time its 5½ per cent bonds were quoted above par, and its 5 per cent bonds at 99. At the same time the Polish Mutual Bank had 112,267,008 roubles outstanding in 5

per cent bonds, and the Courland Bank 17,982,700 roubles in 5 per cent and 2,044,000 roubles in 4½ per cent bonds. "Mutual" also the *Credit-Agrarbank* of St. Petersburg was intended to be, which was started in 1866 and allowed 56½ years for redemption. Anxiety having arisen in some quarters in connection with the state of the paper currency, this bank was in 1891 amalgamated with the Agricultural Bank for the Nobility, formed in 1886, which is a State institution.

In later times, the *Landschaften* pushed their way into Austria and Hungary, and their several dependencies. In Austria, the *Landes-Volks-Boden-Credit-Verein* owes its origin to their example, and so does the *Ständische Creditanstalt*, now become the *Galizischer Bodencreditverein*, in Galicia. The last named institution, while retaining the unlimited liability of members, is interesting as having introduced one new, rather liberal feature, to which I shall still have to call attention.

Another most successful offshoot of the *Landschaft* system is the *Boden-Credit-Institut* of Hungary, which has, to some extent, been based upon the possession of an independent capital figuring as a reserve fund. In addition to 1,000,000 crowns (something over £40,000) granted by the Government, 209 "founders" subscribed collectively £13,900, with liability for nine times the same amount held in reserve. This seems to have been considered necessary for making the institution "go" on new untried ground. "Gone" it certainly has, and that exceedingly well—so well as in course of time (in 1879) to suggest the formation of a similiar institution for mortgage-credit for peasant land. However, that peasant Mortgage bank has been given a rather different form. The *Boden-Credit-Institut* is intended for large properties only. It grants no loans below the amount of 2000 crowns, and the majority of its advances to landowners exceed 100,000 crowns individually which is the figure entitling to direct representation at the General Meeting. Smaller holders conjointly elect delegates

The existence of "founders" exercising special rights is an anomaly. But it seems far from unjustifiable. For, to a large extent, the success of the institution at first depended upon these men, who exercise their rights on the ground of what they have made themselves liable for, and as representatives of their class who first came forward to stand in the breach. The society takes good care not to allow membership among them —resulting from decease—to fall into weak hands. As to the success of the *Boden-Credit-Institut*, Count Joseph Mailáth says: "The principle of co-operation in this application succeeded splendidly, providing the very cheapest money to be obtained on the security pledged.... Up to the close of 1903, the *Boden-Credit-Institut* advanced no less than 662,500,000 crowns (about £28,000,000), on mortgage and in addition 74,100,000 crowns for improvement purposes." * The *Boden-Credit-Institut* is, as a matter of course, subject to Government inspection, but it is also invested by the Government with very substantial privileges, which do not, however, extend to quite the same point as those granted to the *Landschaften* in Prussia. The *Boden-Credit-Institut* is not, for instance, entitled to foreclose of its own motion; however, the Commercial Court will on application at once grant it execution, without going through the tedious legal process unavoidable in the case of other establishments. It also enjoys exemption from certain taxes, including stamp duty on its bonds and coupons, and the otherwise very substantial tax upon earnings. Sir A. Nicolson reports that, at the time when he was writing (in 1890), its exemption under the last named head was estimated as worth something like £17,000 a year. † The *Institut* began by charging, rather stiffly, $5\frac{1}{2}$ per cent interest, plus sinking fund etc., making the annual payment to amount in all to $6\frac{3}{4}$ per

* "Report of Proceedings at the Sixth Congress of the International Co-operative Alliance." 1905.

† "Report from Her Majesty's Representatives, etc." (C.—6314) 1891.

cent per annum Its present rate appears to be 5 per cent, including .94 per cent sinking fund and .06 for reserve fund, clearing off the debt in 41 years.

Here is a record of good work stamped with the evidence of success such as the champions of any institution might be proud of. However, in spite of all its excellent features, the *Landschaft* is open to some criticism. It does not, of course, make advances on house property, as considered apart from land; but that it was never expected or intended to do, and it would experience some difficulty in attempting it. For house property must be regarded as standing on a different footing altogether from agricultural land. Its value is not as accurately ascertainable, because it varies considerably according to temporary circumstances, and is always liable to fluctuations beyond the ken or foresight of man. Its life is never so long as that of land, and sometimes very precarious. Our building societies know what it means to have a house pledged which is deteriorating in value and may any day be abandoned at a dead loss to the creditors. No doubt, there is house property on which a co-operative credit institution could with safety and to public advantage advance money by way of redeemable mortgage. Of such type are working men's dwellings, if set up under the authority of some responsible organisation, such as a co-operative building-association would be. There would be sufficient elements of security in that case; and, as a rule, building debts on working men's dwellings are so quickly cleared off, that the risk would be nil. Really, one cannot help thinking that in this province there is a great future for co-operative mortgage-credit societies, and that they might render most useful services. For other house property, which is always more or less speculative in character, credit institutions of a different description are required, having special abilities to protect themselves against the risks involved. I shall still have to say a few words on this point.

But, even looking at agricultural property only, the *Landschaft* is open to this objection, that it confines its benefits almost exclusively to large, and to a certain extent privileged, property and leaves the peasantry unprovided for. That is in part due to the antiquated character of its charter, which never contemplated anything but mortgage advances upon manor land. In part it is also due to routine habits acquired, and to rather cumbrous machinery provided, the prejudicial effect of which is aggravated by the strongly centralised organisation adopted. Such centralisation, however convenient no doubt it is for business affecting large properties, must stand hopelessly in the way of any dealings with the peasantry. For the one thing, above all others, that the peasantry require and value in such matters is to have the person to transact business with within their easiest possible reach, almost at their very door. It is with reference to this particular point that the Galician *Bodencreditverein*, already mentioned, deserves creditable mention. It was the first *Landschaft* to introduce decentralised organisation with a view to doing more local business, advisedly cutting up its large area into comparatively small districts, within each of which a local committee is stationed, authorised to negotiate loans. That shows that *Landschaften can* decentralise and localise their business. But it does not get rid of some other objections. The conditions of liability, for instance, are still left rather cumbrous, making every borrower—the minimum allowable loan is about £40—liable for up to 5 per cent of the institution's liabilities. Other *Landschaften* have tried to advance with the times and provide credit for small landowners in different ways. Thus the Silesian *Landschaft* has taken power to make advances down to £7.10*s*. on property showing a net annual value of at least 30*s*. You could not well descend lower in the scale. However, such peasant borrowers become borrowers only, not voting members of the *Landschaft*. In other instances, special *Landschaften* have been formed for the very purpose of

providing credit for landowners not entitled to become members of the older *Landschaft* in the same province. Thus it is in Pomerania, in Posen, and in Brandenburg. But in spite of all this, the entire cast of the institution remains, notwithstanding all its excellencies, a little exclusive and ponderous.

Its unsuitableness for dealing with small peasant property is very well exemplified by what Herr M. Conrad relates in the *Jahrbücher für Nationalökonomie und Statistik*, of 1898, about the experiences of the *Neue Westpreussische Landschaft*. The *Neue Westpreussische Landschaft* was specially created, in 1861, to provide for the needs of small peasant owners, by the side of what the older *Landschaft* of the same province, created in 1787, was actually doing for "knightly" properties. It was authorised to advance money on mortgage upon properties of small value, down to £150, on liberal conditions. Valuation expenses were kept at a low rate—down to £2 for properties valued at 30*s* or less annual land tax. There can be no doubt that mortgage-credit was badly wanted among the class of landowners in the province for whom the institution was intended. For Herr Conrad, in the course of his enquiry, found much money raised on mortgage in the district. But, whereas the *Landschaft* charged only 3, or else 3½, per cent on its mortgage advances, (and its 3½ per cent bonds were, at the time when Herr Conrad wrote, quoted above par), a very considerable number of mortgages on peasant land, including a fair proportion of first mortgages, were then outstanding at 5½ per cent to other mortgage institutions or private capitalists. Indeed, only about 12 per cent of the small peasant proprietors of the province (4138 out of about 30,000) were, in 1894, found to have availed themselves of the opportunity offered them by the *Landschaft* at all. (Evidently the *Landschaft*, with all its undoubted advantages, had shown itself quite unsuited for the circumstances of those people Undoubtedly, also, the *Landschaft*, as an institution, is a little out of keeping with modern times) For not only has limitation to "knightly owners" become an

anachronism, now that the "knightly owner" has been altogether done away with in everything but the courtesy vocabulary of Society—having been deprived, first, of his "patrimonial" judicial rights, next of his magisterial privileges, and last of all of his peculiar superior status; but under the new economic rule, the small landowner has become to the nation really the more important factor of the two, the man whose needs have above all things to be considered.

It is on such grounds chiefly that various Governments, some considerable time ago, took the matter into their own hands, deeming it to be their duty to do so. We shall see that co-operative mortgage-credit institutions are fully as practicable for small owners as for large. But the fact was not at once perceived. And one can scarcely be surprised at the various Governments desiring not to let their horse starve, while the co-operative grass was slowly—very slowly—growing. "Paternal" Government interference, which means State Socialism, is so much on the increase, to the discouragement of individual effort, that one scarcely cares to see additional arguments advanced in its favour. However, in this particular matter, it is impossible not to agree with the late Dr. Buchenberger, who testified that the Government institutions have plainly done good, and have, above all things, achieved their particular purpose of bringing appropriate assistance to the *small* agriculturists.

Among other proofs of this, Dr. Buchenberger—who must rank as a competent judge, if ever there was one—attributes the flourishing condition of peasant property, often remarked upon, in Brunswick, Hanover, Oldenburg and adjoining countries, distinctly to the assistance given by State organised credit banks. More than this, under very conscientious administration, such have managed to render service without dipping, at any rate at all deep, into taxpayers' pockets. Even in the worst case on record, that of the whilom State-guaranteed mortgage in-

stitution of Cassel, in the years of dire crisis of 1846 to 1853, on a total business of 48,000,000 marks, not more than about 72,000 marks was lost in that, at the time, ill-fated institution. In the main the service has been made self-supporting.

Being on the subject, I should wish to pay a becoming tribute of the same praise to the *Landesculturrentenbanken* of Prussia, which are State-created institutions for the advance of money to landowners for improvement purposes. I have already called attention in various articles, to their good services, describing the settlement of peasantry on the land in Prussia, in the promotion of which they have played a leading part.* More or less co-operative organisations make similar advances with very good results, as for instance Italian People's banks and savings banks, and also the *Boden-Credit-Institut* of Hungary. There is no reason whatever why such institutions should not make this particular type of transaction a very successful branch of their business. However, the Government institutions have certainly succeeded exceedingly well in it—better than our own joint stock companies formed for the same purpose—and that without loss to the taxpayer.

In respect of mortgage-lending proper, with which I am here more particularly concerned, the Government, intervening by giving a guarantee or granting a subvention, has not in every case taken the whole burden, at any rate ostensibly, upon its back. That it is which makes it so very difficult to distinguish now between State-created and merely State-assisted institutions. Governments have in some cases given only a limited guarantee, or made only a temporary advance. In spite of the receipt of such advances, we shall have to class the *Landwirthschaftlicher Kreditverein* and the *Bayerische Hypothekenbank*, of which I shall still have to speak, as co-operative bodies. The *Crédit Foncier de Paris* has received a Government subvention of

* See among others my article, "Re-peopling the Land" in the *Contemporary Review* of May, 1895.

10,000,000 francs, and is practically placed under Government management. Nevertheless, it is ordinarily classed as a joint stock institution. The *Hessische Landeshypothekenbank* has nearly the whole of its share capital subscribed by the State, which, in addition, guarantees every penny of its liabilities. Nevertheless it is formed as a joint stock company, with a Board of Directors, a Body of Control, and a General Meeting. Among such multiform organisations it is difficult to draw a precise line. The only criterium to be taken can be the object with which the institution was formed, whether to bring "paternal" assistance, emanating from the State, to the beneficiaries; or else to become in course of time a self-reliant, self-supporting institution.

The number of bonâ-fide State-organised institutions has become considerable. One of the first organisations of the kind established was that of Brunswick, which was formed, but at first only as a pawn-office, as long ago as 1765. Starting at Brunswick, the institution has in due course overrun Germany, and spread beyond, into Russia, Sweden, Norway, Austria, Hungary, even Roumania. It has not assumed quite the same shape everywhere. Most of the German State Mortgage banks are carried on, or else guaranteed, really by the State, that is, at the expense of what we should call the general taxpayer. But they are to be met with only in the smaller states, in which of course direct State administration is comparatively easy. In large countries it becomes extremely difficult. Prussia is debarred from saddling itself with any liabilities of this kind, not only by its size, but also by its constitution, and therefore found itself constrained, after the conquest of Hanover, electoral Hesse and Nassau, in 1866, to pass on the State mortgage institutions, which it took over at Hanover, Cassel and Wiesbaden, severally to the provinces and the surrounding communes.

The Government of Baden, pursuing a line of its own, has adopted quite peculiar machinery. It has bound over a large

joint stock Mortgage bank at Mannheim in its charter to provide mortgage-credit for agricultural land "at cost price"—recouping itself, I suppose, for the loss of profit sustained under this head out of its non-agricultural business, which is, of course, not likely to grow any cheaper under the process. That is a contract of a piece with that already noticed, imposed upon the Bank of France, upon the renewal of its charter, which obliges it to provide money gratuitously, or else cheaply, for the *caisses régionales*. Under the Baden agreement there must be no charge for management expenses; but, on the other hand, the principal is in every case to be recovered by annual sinking fund. The Government has a special commissary to see that the undertaking is properly carried out. In Austria, where Government help is in this matter much in vogue,* the subventioning and guaranteeing body in this connection is, as a rule, the "territory"—the "country," as it is called—corresponding to the "state" in the American Federation. But the Empire appears to render contributory assistance. In Sweden and Norway respectively, once more the endowing authority is the State. So it is in Hungary, in the case of the Peasants' Mortgage Bank, which was formed in 1879, partly in imitation of the *Boden-Credit-Institut*, with 1,000,000 crowns of State endowment. In Russia, apart from the local bodies already mentioned, and the host of peasants' "Communal Banks," formed in 1874, and guaranteed by the several *Mirs*, once more the endowing body is the State, which created "Imperial Banks" for noble landowners in Moscow and St. Petersburg in 1754, a "Reichsleihbank" for nobles and urban house-owners in 1786, its powerful "Peasants' Agricultural Bank" in 1883, and the St. Petersburg "State Mortgage Bank," formed originally as the "Gesellschaft für gegenseitigen Bodencredit," in 1866, which last named upon its

* See the Papers on "Co-operation and State aid," in the "Report of Proceedings at the Sixth Congress of the International Co-operative Alliance held at Budapest," in 1904.

reconstruction, in 1890, at once absorbed the "Nobles' Agricultural Bank" formed in 1885. The "Peasants' Agricultural Bank" has thus far given its services rather to enable peasants having no land of their own (apart from the *Mir*) to acquire such, advancing for this purpose, according to M. Apostol,* 400,000,000 roubles, which sum has purchased somewhere about 7,000,000 dessiatines (20,020,000 acres) of land. That is a considerable result. † But in future the Peasants' Bank is, according to the same authority, to become a Mortgage bank in the ordinary sense, charging either 5½ or 6 per cent interest, as may still be settled, including sinking fund, which latter is to pay off the debt in the comparatively brief space of 15 years. By such means the bank is to become the peasants' "saviour from usury," enabling them to replace dearer loans obtained from other quarters, as by a *versura*, by loans from itself.

The connection above indicated of a Mortgage bank with a pawnbroking office (in Brunswick) is not a solitary instance of a deliberate policy, aiming at placing an original source of supply in direct touch under one roof with the ultimate channel of outflow. § In Austria, more particularly, the connection of endowed Mortgage banks with savings banks is rather common. There seems no special reason for this. It may even spoil relations with the general market.

The State-endowed institutions, then, have on the whole not a bad record to exhibit. They have placed money within reach of the peasant proprietor, who was previously too small for the savings banks—which are, abroad, the great purveyors of mortgage money—to look at, since his business was in each individual case only petty and troublesome; who fur-

* *Journal des Economistes* of 15th. April, 1906.

† This is, of course, independently of the gigantic transactions reported by the newspapers to have been carried out or decided upon in the summer of 1906.

§ In France several savings banks were, and one still is, organised on the same principle, receiving deposits and employing some of them in its business of pawnbroking.

thermore, if not too small, was at any rate too distant from their pay office for the *Landschaften* to deal with; and who was deemed altogether unworthy of the notice of joint stock Mortgage banks. They have done this in an efficient, appropriate way, by stationing their officers in every district, and making application, valuation and borrowing decidedly easy for the peasantry. But, after all, in 1888, their entire account in Germany, according to Dr. Hecht's figures already partially quoted, amounted to only 421,000,000 marks out of a total of 4,824,000,000 marks traceable to corporate bond-issuing institutions, that is, less than one tenth, whereas the *Landschaften* issued 1,903,000,000 marks. That is quantitatively a poor result.

It is scarcely to be regretted that State credit should not have extended any further. For, after all, it can rank only as a second best kind of mortgaging agency. It does for people what those people ought to be doing for themselves. It educates—it has in this case taught the peasantry the valuable lesson of which they were, like some Chancellors of the Exchequer that we have known, previously ignorant—namely, that debt contracted must be steadily repaid. But it cannot educate like a self-governing institution, which teaches business by means of direct responsibility imposed. It can not educate like an institution which, by *making it the borrower's direct interest* to be scrupulously fair to his lender, leads him to understand that plain dealing is the best policy for himself. Nor could it grow to the same proportions as more or less co-operative credit. For, looked at closely, the State's resources, often considered inexhaustible, are in truth very narrowly circumscribed. How, for instance, could a State, however "paternally" inclined, and however powerful, have provided that £100,000,000 already spoken of which the Schulze-Delitzsch banks keep steadily circulating, at any rate with anything like the same ease? Self-help, properly organised, has an incomparably greater treasure to draw upon than State help. However, whatever allowance

able, beginning with £50,000 advanced free of interest, and another £50,000, since increased to £200,000, advanced at 3 per cent, plus an annual grant of £3,000 towards management expenses, which grant, having been first reduced to £2,000, has only just been finally renounced. That is rather a strong dose of State aid for a "co-operative" institution having at present about £3,700,000 outstanding in mortgages. Ready money, independent of the issue of land bonds, as cash in hand, is however a decided convenience in the management of a society, and more specifically in the floating of bonds, which are as liable as any other security to "corncrings," and "bullings," and "bearings." And since, at any rate practically, dividend on shares is in both cases limited to 4 per cent, there is really nothing to be objected to in the practice from a co-operative point of view.

In truth, what source of mischief there may be in the issue of shares is likely to correct itself. Such effect has long since become observable in the Saxon society, which was formed in 1866. In it, shareholding by a single individual was at first allowed up to £150— which stops short by £50 of our maximum limit in industrial and provident societies. Nothing was said about limitation of dividend, and, as the business promised to be good, there was a greater demand for shares than the Committee approved. Substantial shareholding threatens to introduce an independent lenders' interest, which may become antagonistic to that of the borrowers. In consequence, the maximum holding was in 1875 reduced to £75. Even with such limitation, the share capital had at the close of 1903 grown to 7,181,769 marks (£354,088), which is indeed a mere nothing compared with the 310,905,227 marks (£15,545,000) outstanding in bonds, but is still a very substantial working capital, especially since it is supported by 1,200,000 marks (£60,000) of reserve fund.

The holdings in shares are systematically proportioned to the mortgages granted. A mortgage not exceeding £250 means

an obligatory 50*s*. share, a mortgage up to £1000 a £5 share, and so on till the £75 is reached. In the Bavarian society the minimum holding is £5, in respect of a mortgage of £250, and the scale rises, by a fresh £5 for every additional £250, till the maximum of 200 shares (£1000) is reached. The society was only formed in 1896, and began business in 1897. By the close of 1905 it had carried its share capital to 2,345,900 marks (£117,300), supplemented by rather substantial reserve funds, amounting collectively to 463,518 marks (£23,176); there was then 74,141,600 marks (£3,707,080) outstanding in land bonds.

The value of an independent working capital, in organisations which are by law strictly required never at any moment to have one penny more outstanding in bonds than is covered by actual good mortgage assets, is sure to be appreciated in this country. In Germany, apart from compelling the co-operative mortgage societies to forego certain secondary business, of which I shall still have to speak—which is perfectly legitimate and yields them a profit—absence of funds of their own would place such institutions absolutely at the mercy of the confraternity of bankers. Bankers in Germany are very much given to speculation, and could, with a little clever manœuvring, easily spoil the market for land bonds, forcing them up or down at pleasure and depreciating them generally by making quotations unsteady. Nothing, of course, could be more detrimental to a mortgaging society With money in their pockets, the societies are able to meet such machinations, and to regulate the supply of the market, so as to keep the bonds at a steady quotation, which is not only desirable in itself, and certain to benefit their credit, but which is, in addition, specially important to their members, since fluctuations of capital-value are sure to influence the rate of interest. And—since the mortgage societies are bound by law to charge precisely the same rate of interest on their mortgage loans as they themselves receive on their land bonds—

the borrowers would necessarily suffer. The very object of their existence, as we know, is to bring interest down. The more effectually to regulate the issue of bonds, the Saxon society has made it a practice to issue advances to members, not in bonds, but in cash, the cash being made to represent the current market value of the bonds issued to meet the loan, with a fixed deduction—about 2 per cent—agreed on beforehand, to be carried to its general fund. Whatever goes into that fund is, of course, in a co-operative society, never lost to members. If there should be too much, they will receive it back in course of time. And, in the present case, borrowers have received it on one occasion in a most acceptable form and to a substantial amount, namely in the shape of a gratuitous reduction of interest from 4 to 3½ per cent, which the Saxon society found itself strong enough to grant in 1888, in respect of about £2,678,186 of mortgage debt outstanding, meaning £13,390 a year put into the pockets of 4299 debtors. Albeit, accordingly, in view of Danish experience still to be related, it would be impossible to contend that share capital is indispensable, German experience shows that it may become exceedingly useful.

The two German societies started with other marks of official favour to speed them on their way, besides an advance of money. The privileges conferred are not as ample as in the case of *Landschaften*; however, they are useful. They consist mainly in exemption from stamp duty in respect of land bonds and some other facilities; in priority before other debts accorded in case of liquidation; and in the public recognition of the bonds issued as legitimate trust security. In respect of the Saxon society such recognition has been extended, not only to all the Thuringian duchies—for which the society has in course of time been officially accepted as an approved credit institution—but also to Prussia. Such acceptance of co-operative land bonds by markets beyond the limits of their own countries appears

to me full of useful suggestiveness for such of our colonies a: are thinking of adopting similar facilities for mortgage-credi and to which an influx of foreign capital would be helpful There is plenty of such capital seeking safe investment in th United Kingdom. We shall see that Danish co-operativ land bonds find a ready market in Germany; they are in fac issued contemporaneously in Hamburgh and in Copenhagen And it is proposed to carry them into France. Saxon co-operative land bonds circulate all over Germany, and are, amon other things, readily taken up by Prussian savings banks. Wh should not colonial land bonds be as gladly accepted as goo investments in Great Britain? It all depends upon the syster under which they are issued, and the safeguards observed t make sure that they represent good value. *

Of course, in return for the facilities given—and, indeed, als as a security to the public—the Government claims a right o inspection, and even the presence of a representative of th Crown at the sittings of the governing bodies. But when, a in both cases, the Royal Commissioner is employed to certif officially on each bond—as he is required to do—that he ha personally satisfied himself that there is good mortgage securit to balance the value of the bond issued, his intervention become rather a help than a hindrance, and also an economy, a securing a more ready sale for the bonds, and avoiding th necessity of other official certification, which would have to b paid for.

Having been formed before 1889—in which year limited liability was for the first time authorised in Germany—th Saxon society necessarily had to adopt unlimited liability for it members. It was not considered worth while to modify th rules after 1889, all the more that by that time it had become

* It may be as well at once to explain that Argentine *cedulás*, which hav caused not a few of our investors some loss, are a different thing altogether from the land bonds here spoken of.

generally understood that, in practice, such liability will never need to be enforced. For ample security is taken without it. It is in itself, of course, quite unnecessary. The Bavarian society has made the liability of its members limited; but, according to that curious German fancy which is directly suggested, if not absolutely dictated, by the law, it has limited liability for a share of 100 marks, or £5, to its decuple, that is, to 1000 marks, or £50. This is, in the eyes of German legislators, regarded as affording additional security for creditors. It really means a very unequal distribution of liability among members, and uncertainty as to assets. But it does not seem to have occasioned any practical inconvenience.

In respect of organisation the German co-operative land credit societies generally resemble other co-operative organisations. There, are, indeed, some special distinguishing features in either case. Thus, in the Saxon society, the "Directorium" (Committee of Management), which carries out the current business of the society, consists of three members; in the Bavarian, where it adopts the name of "Vorstand," of four. The Saxon three are nominated by the "Verwaltungsrath," or "Council of Management;" the Bavarian four are elected by the General Meeting. In the Saxon society the "Council of Management" is composed of fourteen members, which is none too many, considering the business to be gone through. This "Aufsichtsrath," elected at the General Meeting, is a very responsible body, which really governs the business of the society, directing and controlling the "Directors," and being itself responsible to the General Meeting. The five members elected in the Bavarian society, three forming a quorum, appear as a rather modest contingent. The consequence of undermanning the "Council" must be to overburden the "Vorstand" with responsibility. It does not follow that the Bavarian Council will not be made larger as business increases. In either case, wisely and rightly, is all auditing entrusted to a distinct Committee, elected by the

General Meeting, and consisting, in the Saxon society, of five. Apart from the possession of a very able executive head, the remarkable success of the Saxon society is probably to a large degree owing to proper recognition of the importance of the Managing Committee and concentration of business in its hands. Thus it is the Managing Committee which determines the actual rate of interest at which every new series of land bonds is to be issued, the General Meeting simply contenting itself with laying down a maximum and minimum limit. Up to a certain point the Directors have power to bind the society. Beyond that point they are required to obtain the consent of the Council. This applies, among other things, to the acceptance of mortgages above a certain figure.

In the valuation of properties to be mortgaged, the societies proceed on lines very similar to those of the *Landschaften*. Valuation is, indeed, as has already been shown, in Saxony not absolutely indispensable. Should the borrower declare himself satisfied with the standard of "assessment units" fixed by the political authorities, he may have his loan without further to do. In its own interest the society accepts such "unit" at a moderate multiple only, that is, forty times its figure; and correspondingly, since three fifths is the maximum limit up to which it lends, on such basis the borrower will have to be content with twenty-four times the value indicated by the unit. Should that fail to satisfy him, he is free to have his property valued at his own expense by a valuer of the society, whose fee is very small indeed. In both cases it is laid down that valuers shall be members of the society, sharing in its liabilities, and therefore under a direct responsibility; also, that they shall be practical men of known experience, resident in the borrower's own district, so as to be acquainted with local circumstances, and also within very easy reach of the applicant and subsequent debtor, over whom they will still have to exercise a certain amount of supervision as the societies' "men of con-

fidence." For they are to do more than value. They are to receive applications, to canvass for the society, secure members, make the advantages of membership known, and in Saxony, where, for the convenience of members, the society has taken power to collect savings deposits, to receive such. To the last named powers the society does not attach much value, though its acting as a savings bank, receiving in deposits, at only 3 per cent interest, what it finds occasion to lend out at a higher rate, certainly does bring some grist to its mill. But in a country where there is no Post Office Savings Bank, country districts are frequently—barring the presence of Village banks, which this society has advisedly set itself to propagate as a preferable method of collection to its own—left without convenient receptacles for savings. It is to supply such for the humble rural population that the society has taken the matter in hand.

The Bavarian society makes advances only to the extent of one half of the ascertained value of a property. But, then, it seems to be a little more liberal in taking the sale value into account. The Saxon limits valuation to the purely agricultural value, such as would be accepted to determine purchase by a cultivating farmer. The Bavarian makes such limitation only "the ordinary rule." Moreover, the Bavarian accepts the buildings on the property as pledge value, as valued for insurance by the Fire Section of the Government Insurance Department. The Saxon excludes buildings altogether. (There will be something to say on this point presently.) It also excludes standing timber and industrial establishments connected with a farm, such as potato distilleries, beetroot-sugar works, flour and saw mills, and similar factories. The Bavarian society accepts all these, even public-house licenses, such as are often connected with farms, as well as timber, and, "in connection with agricultural land," also quarries, workable peat-bogs and the like.

To have a sufficient number of competent, local men available for valuing purposes, both societies have carefully mapped out their districts into sections, and appointed a valuer to each locality. The Bavarian society makes a point of having, where possible, one man to every civil parish, and so employs very nearly a thousand. The position of valuer does not of course confer the same social distinction as that of a *Landesältester* in a *Landschaft.* But the men selected appear better suited for their small work. Their main business, so it will have to be remembered, lies among small holders. And, as the figure just given indicates, it is not very difficult to obtain good men who, being members of the society, are responsible in the matter, and are quite willing to do the work for the small fee which it puts into their pockets.

Even where the property is expressly valued—which it is in the vast majority of cases—official assessments, and in fact any official material available, are largely taken into account. The applicant is required to answer a number of questions on a questions-sheet sent to him; and the local "man of confidence," confidentially, a great number more:—with regard to the quality of the several pieces of land, the condition of the farm, the current price for land with or without farm buildings, the condition of dead and live stock, and so on.

As a rule, society mortgages are required to rank as first charges upon all property. However, for practical purposes, it is sufficient if they come within the one-half or three-fifths value limit. Such ordinary mortgages, which make up the bulk of the societies' business, are invariably subject to redemption by sinking fund. The sinking fund may be proportioned to the loan at various figures. A table issued by the Bavarian society shows how much time is required for repayment of a loan at various rates of sinking fund, ranging from ½ to 6 per cent. Six per cent clears off the debt in a little more than 13 years, one-half per cent in 58. One-half per cent is the

smallest payment allowed. And to that has to be added $\frac{1}{2}$ per cent for management expenses. There are also some small commissions due on negotiating the loan. In the Saxon society $\frac{9}{20}$ per cent is the usual rate of sinking fund, which allows conveniently for the addition of another $\frac{1}{20}$, within the limit of $\frac{1}{2}$ per cent, for management expenses. The Bavarian society hands over to the borrower the amount of his loan in land bonds, which it leaves him to place in the market as he may choose. In the event of the market value being below par it allows him to make up the difference as far as he can, by taking out an additional loan up to within 5 per cent of the total amount of his original loan. Such additional loans have to be repaid by instalments or sinking fund within not more than ten years. The Saxon society has a standing arrangement with its members to take over the bonds issued in respect of their debt at the quotation of the day, minus 2 or 3 per cent, to be deducted, as has been already explained. That enables it to maintain a steady quotation of the bonds, and in this way helps the borrowers themselves; for it means a low and unchanging rate of interest. In addition, the society stipulates for a small commission ($\frac{1}{4}$ to $\frac{1}{2}$ per cent) on the completion of the transaction.

As a convenience to members, and not without some advantage to itself, the Saxon society also makes loans, repayable in the lump, secured by a charge on property, for comparatively brief periods, which loans are always subject to notice. That means that at times when money is wanted by the society they may be called in The Bavarian society has taken the same powers under a limitation to one-tenth of its entire business, but had not up to the close of 1905 taken advantage of them. The ordinary loans, which make up the great bulk of the business done, are in every case subject neither to notice nor to variation of interest, so long as the borrower carries out his part of the bargain. That is the main advantage which the latter

is to secure by combining with others, and by obliging himself to a steady payment of sinking fund; *within the period for which he has received his loan, nobody can take it from him, and nobody can raise the rate of interest against him.*

In return for property so pledged, bonds are issued, just as in the case of the *Landschaften*, for convenience sake in series of, say, about £750,000 each, which series are made self-contained in the matter of sinking fund, management expenses and reserve fund, but still benefit by the general liability imposed upon the entire institution. The rate of interest is fixed for each new issue, in accordance with the condition of the market at the time prevailing. Its tendency is generally downward. Thus the accepted rate of interest has already been brought down from 4 to 3½ per cent.

In addition to loans upon agricultural property, both societies are empowered to grant loans in precisely the same two ways, that is, either for long periods, without any power to call in the money, but making it subject to sinking fund, or else for shorter periods, not subject to sinking fund, but subject to notice, to local authorities on the security of the rates. In Bavaria such powers are rather more circumscribed than in Saxony, and limited to "agricultural" communities. This has been found a convenience for local bodies, and in Saxony it has become a source of some little additional profit to the society. For, since loans are negotiated in full amounts, but the full amount is not generally required at once, local authorities are glad to leave their cash balances, already agreed to at 3½ per cent, remaining as deposits at 3 per cent with the society, which in this way pockets the odd ½ per cent.

The result of all this work has in either case been a very decided success. The Bavarian society was at the time of the issue of its last annual report only eight years old. However, in respect of the amount of loans outstanding, it had already, in 1902, taken quite first rank among eight mortgage lending

institutions in the kingdom (the others being older than itself), having lent out in the year 9,681,000 marks in agricultural loans, to a total, for the eight societies, of 26,830,000. The total amount of such loans granted by it, outstanding at the close of 1905, was 68,877,200 marks. Its losses had proved very small indeed. And a particularly satisfactory feature about its loan business is, that the bulk of it has benefited *small* proprietors, by means of *small* loans. Numerically speaking, 89.39 per cent of its loans (73.72 per cent in amount) were granted in amounts below £1000; in fact about 80 per cent did not exceed £500. (The smallest amount to which money is loaned is £25.) But for the existence of the society, many of the small owners benefited would have had to go absolutely without mortgage-credit.

The Saxon society has now been in existence just forty years. But the latest report in my possession is that of 1904. It has, of course, in so much longer time done a very much larger business. Gradually it has extended its sphere and pushed its way, with the consent of the several Governments, into all the Thuringian duchies and the duchy of Anhalt. Its losses have been, if anything, even proportionately smaller than those of the Bavarian society, and it weathered the great financial crisis of 1873, not only without loss, but with positive gain. Its outstanding mortgage assets, as already stated, at the close of 1904, amounted to 310,905,227 marks, distributed over 14,297 loans, whereof 12,656 stood for sums not exceeding £1000. Most of these, once more, were lent out to small owners on the security of small properties. Not content with what it is doing in the way of mortgage-credit, this society has made itself a propagandist centre for Village banks, more or less of the Raiffeisen type, and has in this way promoted personal credit as well as real. The fact that it had, at the close of 1904, a sinking fund standing at the figure of 26,317,752 marks goes some way towards showing that its financial condition is sound.

This will be allowed to be in every respect a satisfactory record, and to place the fully co-operative mortgage-credit institutions in point of utility above the others. But I am not sorry to turn from these very slightly capitalistic institutions in Germany—where there are one or two more; there is also one in Transylvania, the chosen eastern home of Raiffeisen banking—to those of Scandinavia, which, being older in their origin, exhibit the co-operative principle at work in all its purity and simplicity, without admitting any share capital, and—with the exception of two societies created for the benefit of *very small* rural landowners, severally in Jutland and in the Danish Islands—without any State aid whatever, barring exemption from stamp duty and from certain small court fees, etc.

The idea of co-operative real credit was taken up in Sweden as long ago as in 1836, when the first credit society was formed in Skaane. In the course of the succeeding seventeen years similar institutions grew up in Östergötland, Smaaland, the Mälar provinces, the Örebro country, in Wermland, Elfsborgland and Gotland. And in 1860 we find the institution making its way into Finland. Denmark took the matter up in 1850, and has now about a dozen societies, the rules and practices of which vary in a good many minor points among themselves, but which are all built up on the same sound and approved principle. That principle is, that each society should be a bonâ fide organisation of borrowers, and borrowers only, lumping their liability together in order to make it go the further. There is considered to be no need for any share capital, although of course a reserve fund is in due course amassed, which helps, at the close of every "series," to hasten redemption. A small levy retained when paying out the mortgage—a mere 2 per cent or so—provides sufficient funds for carrying on with till the first interest falls due. That is, of course, the purest form of mortgage-credit co-operation conceivable. And, in some respects, it simplifies matters not a little. But it presupposes that the land bonds

issued by the societies always find a ready market at once at a steady price. That appears to be the case. Land bonds are issued yearly at present at what is for Denmark a rather considerable figure, namely, more than £4,000,000. And they appear to be gladly taken, more particularly by the Danish savings banks, which stand, together with those of Saxony, in respect of amount per head of their deposits, at the very top of the general army of savings banks. In this way the close touch between mortgage societies and savings banks, which is elsewhere brought about by organic interconnection, is established in an indirect way. Beyond that, the bonds sell freely in Germany; and hopes are, as already related, entertained of finding a market for them also in France. A bankers', or speculators', "corner" might, however, rather rudely disturb such even flow of business. Also the drawbacks attending a want of working capital are to be observed in the necessity recognised of carrying over the liability attaching to one series to the next, which really has no connection with it, in order to give the latter some backbone, till it have acquired sufficient volume (say from 2 to 3 millions of kr.) to maintain itself.

The State does not, as observed, assist the societies with money. But it allows them the privileges of franking, exemption from stamp duty in respect of their bonds (but not of their mortgages), and of performing certain judicial acts, such as forcible foreclosure in the event of a breach of agreement, without judgment from a court. It has also recognised their bonds as constituting good Trust security. In return for this, it requires a certain volume of intended business to be shown in the shape of bonâ fide applications for loans, before authorising the formation of a society, and makes members join in a collective bond to answer for one another's liabilities up to the full value of the property pledged, supposing the mortgage raised upon it be of the amount of three-fifths of the value, and of correspondingly less, if the sum advanced represent a smaller proportion. The Government

furthermore limits the operations of each society to a particular district, makes compulsory redemption by sinking fund obligatory, insists upon all bonds issued being "negotiable," and not inferior in value to 100 kr., and upon publicity of accounts. It also reserves to itself the right of inspection of accounts at any time, and of directing the winding up of societies in certain contingencies, in the event of a failure to fulfil engagements, or of the reserve fund becoming exhausted. Of course, no modification of the rules adopted is valid without Government approval. The management of these societies is entirely in the hands of its members, who become such *ipso facto* by the act of taking up a mortgage. In some societies a certain representation is also given to holders of bonds; but it is said to work badly, and is, of course, quite contrary to the spirit of the institution. Voting is generally according to holdings. Thus the holding of a mortgage of 10,000 kr. (something over £500) entitles to one vote, an additional vote being added for every further 20,000 kr. held, till the maximum number allowable of five votes is reached. The law provides that members should meet at least once every year in general meeting, when it is for them to decide whether a new series of bonds is to be issued in the year, what are to be the principles of valuation, and similar points. To carry out such resolutions there is an Executive Committee *(Direktion)*, ordinarily consisting of three, with a Supervising Council *(Repraesentantskabet)*, composed of from five to nine members, to control the action of the former body in every particular. All these men are elected by and responsible to the General Meeting. Only the control of the bookkeeping is reserved for two special inspectors, both of whom have to be approved, and one to be nominated, by the Crown. They are appointed for the particular society only, and so have responsibility for their work directly brought home to them.

For purposes of management, apart from the levy referred to, made on each new loan — which practically goes to redemption

—a small commission is charged on the completion of the transaction, and an annual contribution, say, of $\frac{1}{10}$ per cent, is levied on members. There are some other windfalls. However, the expenses actually incurred are very small.

Certain fixed rules are laid down for valuation, which make it similiar in character to valuation made on behalf of public bodies or endowed trusts. There are never to be less than two valuers to value the property, and, in some instances—more specifically those of buildings—the three Directors, of whom in such cases one invariably is an expert builder, reserve to themselves the right of inspecting the property themselves before voting the loan.

Redemption is, of course, regulated by the amount of sinking fund paid. Although at no time the issue of bonds outstanding may be larger than the security held against it, longer time is sometimes taken for redemption of bonds than is exacted for repayment of debt. Thus, in a prospectus recently issued, one society enforces repayment of the debt within sixty years, but allows itself seventy years for redemption of bonds. Provided that the funds are forthcoming, the society is, however, free at any time to accelerate redemption by buying in—which some people consider the better practice *—or else by drawing a larger number than are provided for in the plan at the stated times. Indeed, particular attention is paid to redemption by means of what is familiar to ourselves by the name of "the old sinking fund," that is, by buying in out of accruing surplus, and, at the same time, no less to the accumulation of reserve. Hence, in part, that levy of 2 per cent on issuing the loans. It is generally laid down that, once the reserve fund has reached a certain point, somewhere between 4 and 6 per cent of the actual liabilities—which may be taken to be sure to happen

* The same argument has quite recently been put forward with respect to the many millions raised in Prussia for the creation of small holdings by means of terminable rent charge.

whenever a society has existed for twenty years—all overplus is to go to debt redemption by buying in. Under certain circumstances, however, redemption may also be retarded. I shall still have to speak of the one such case that has thus far occurred.

The bonds are issued in series, each of which generally covers about ten years' issue, and amounts to somewhere about 50 or 60 millions of kroner. With the exception of the liability already spoken of, carried over during the very first period of a new series, each series composes a self-contained issue, for which the rate of interest is specially fixed, and which has its own reserve fund, sinking fund and expenses fund. It is sometimes made a subject of complaint that, although each series has its own burden to bear, the entire number of members of the society decide by their vote what interest is to be paid upon it, how redemption is to proceed, and so on. That, however, cannot be avoided; and, as a general liability remains on *all* members, benefiting each particular series, it is really only fair. In any case no practical inconvenience appears to have arisen. Bonds must not be issued at less face value than 100 kr. (something over £5), but they may be carried to very much higher figures. For the convenience of buyers they are sometimes issued of various denominations, 100 kr, 200 kr, and upwards to 5000 kr. They may be made out in a definite name, or payable to bearer; and if there be 20,000 kr. held by one person, they may, if desired, also be "inscribed" or "registered." The rate of interest is regulated by the state of the money market. There are at present 3½ per cent and 4 per cent bonds in circulation. Not long ago the 3½ per cent bonds were quoted at a premium. At the time of writing, the 4 per cent bonds are quoted at 96 to 97. As is the interest on the bonds, so is that on the loans. The bonds are drawn half yearly and paid out six months after.

Two societies, already referred to, formed for the special purpose of providing mortgage-credit for owners of *very small*

agricultural properties, severally in Jutland and in the Danish Islands, stand on something of a distinct footing. They both date from 1880. In view of the public utility of their work, and the questionable remunerativeness of their business, the Government has supplied the first establishment funds for them, and also guaranteed the money required for valuations and 4 per cent interest on the bonds. In return, apart from the usual rights of inspection, it has reserved to itself the right also of taking the business out of the society's hands in the event of its paying so badly that a levy of 1 per cent should prove necessary upon members, on account of their liability, in three successive years. Meanwhile, the Government keeps a check upon both societies by appointing their Chairmen. The societies must not make advances on the security of properties exceeding 6000 kr. (a little more than £300) in value. If the property consist of a house only, the advance must be kept within $\frac{2}{5}$ of the valuation; if there be land, it may reach $\frac{1}{2}$.

Apart from these two societies, the purely co-operative principle of strict self-help has been rigidly maintained throughout. And it is impossible to question that the societies have rendered valuable public service. Their bonds outstanding in 1900 represented 746,666,000 kr., that is, about £38,000,000, which is a large sum for Denmark, and really more than treble the amount of the National Debt of that little kingdom, and nearly treble the amount of the capital in all Danish savings banks. The bonds have always maintained their price. And the management has proved absolutely safe. Losses have been altogether trifling, and even foreclosures have been few. Not in any case has the liability of members had to be drawn upon.

One feature worth noticing about these excellent societies is that, unlike co-operative mortgage societies elsewhere, either *Landschaften* or independent, some of them have found means of advancing money on house property as well as on agricultural land, some, indeed, solely on house property. Generally

speaking co-operative societies do not, and wisely so, engage in such business.

The question is, whether they can. The comparatively insecure and precarious character of house property has already been called attention to. Co-operative societies have no business to lend upon insecure property. And the experience of making such advances, by such bodies, collected in Denmark, although it very materially modifies the adverse judgment pronounced, does not altogether nullify it. For the one Danish co-operative society which has come to grief, and has had to be wound up—only one—was a society formed specifically to advance money on house property—house property, too, of what one would have thought an exceptionally safe kind, namely, villa property in the neighbourhood of towns in northern Jutland. Such villas being situated in what for administrative purposes is called a "country district," it was considered necessary to create a special society for the purpose. That society, formed in 1852, did very well up to the great crisis of 1857, which affected the propertied classes in Denmark most seriously. The mortgagors could not keep up their payments of interest. Accordingly, "willy nilly," under the law as it stands, the society was compelled to seize their properties and put them up for sale. They were offered. But in a time of general distress there were no bidders. The houses were eventually knocked down for a song, and the loss of principal was considerable. The close of the financial year 1860/61 revealed the presence of a deficiency of about 1,000,000 kr. Under such circumstances the Government could not help itself, but was under the law constrained to order liquidation. To some extent members' liability had to be drawn upon, and during ten years redemption of bonds was suspended, the payments made for sinking fund being carried to cash account. In the end, in 1881, a satisfactory arrangement was made, but the lesson had been a severe one. And, although there are among the Danish

societies some exceedingly successful ones dealing in credit on house property, co-operative societies will do well to make sure of such favourable circumstances existing in their own case as are to be met with, for instance, in Copenhagen, before they decide to venture upon this kind of business, which requires special safeguards, such as that of the election of an expert builder on the *Direktion*, which is adopted in Denmark.

However, house property wants to be lent upon, and lent upon not rarely in a proportion to its value exceeding that which a co-operative society could agree to. Such excess by no means argues that the credit would not be perfectly legitimate on business grounds. There may be perfectly legitimate cases for an owner of agricultural land, as well, claiming a larger loan on his property than a *Landschaft*, or a co-operative mortgage society, could under its rules agree to. After all, the probable sale price must count for something if, as the old rhyme has it—

> The intrinsic value of a thing
> Is just as much as it will bring.

It is in such cases—and there are many—that joint stock mortgage companies have often proved of very considerable value. It is not my business here to plead for them, or to enter minutely into their practices. Rather, after the mischief that recklessly managed Mortgage banks, like those of Argentina, and some in Germany, have caused, it is for me to guard carefully against the misapprehension that *Landschaften* and co-operative mortgage societies might be, or might become, specimens of the same class.

No matter whether joint stock Mortgage banks be good, like the *Crédit Foncier* and the *Rheinische Hypothekenbank*, or bad, like the *Pommersche Hypothekenbank* and the *Deutsche Grundschuldbank*, they stand on a totally different footing from *Landschaften* and co-operative mortgage societies, which could

not, and must not, engage in business like that of joint stock Mortgage banks. It would be like a trustee taking bills of exchange, which to him would be exceedingly risky, although in an experienced billbroker's hands they would be perfectly safe. Joint stock Mortgage banks are the billbrokers of mortgage-credit. They are potentially more adaptable, and may, indeed, as is urged in their favour, neutralise the danger of greater risk by adopting administration better skilled and better suited for their particular work. The first duty of a co-operative society is to avoid risk. It is also always tied down in respect of interest. A joint stock society, acting at its shareholders' peril, makes a profit by accepting risk which it believes that it can estimate, and recouping itself by higher interest. The one thing is legitimate business as well as the other, but not for the same institution.

The tale of the more or less co-operative Mortgage banks which I have passed in review will, I think, have shown that under proper checks and restraints, such as co-operative banking necessarily presupposes, such banking may be made absolutely safe. And there can be no question whatever that to the countries in which it has been adopted it has proved of really inestimable value, as touching the land, figuratively speaking, with a finger of Midas. It has helped very materially to mobilise the resources of those countries by providing ample working capital for the development of agriculture, industry and commerce, on the practical benefit of which I have dwelt elsewhere.* In further support of what I have there said I should wish to quote from a thoughtful paper by Mr. D. N. Frederiksen,† published both in the *Bankers' Magazine* (N. Y.) and the *Quarterly Journal of Economics*. "While there are many causes for the rapidity with which Germany has risen economically, industrially and

* See my article on "An unconsidered Factor in the Economic Question—British and Foreign Banking" in the *Economic Review* of October, 1905.

† *Bankers' Magazine* (N. Y.), 50: 361; *Quarterly Journal of Economics*, 9: 47.

politically," so he writes, "there can be no doubt that the excellence of the Mortgage bank facilities is one of them. In this manner the distribution and profitable employment of capital has been facilitated. . . . The excellent system of mortgage banking has facilitated and cheapened building operations in the cities, and has, in the country, made the change from serfdom to peasant proprietorship easier. It has raised the level of German agriculture, has procured for the farmer drainage and improved breeds of live stock, and, while assisting the borrowers, it has at the same time afforded the capitalist and investor safe, permanent, invaluable securities"—thus performing the useful service for which Southey considered that the National Debt might have to be created afresh, if by any chance it were ever to be paid off, which does not at the present moment appear conceivable "within a measurable distance of time."

I leave it to others to determine whether it would, or would not, be advisable to transplant an institution which has rendered such valuable service abroad into our country. It is a long time since I was told by some landlords in Ireland that some such convenience would prove a boon indeed to their own island. And there is mortgaged land in England and Scotland as well. The question of title can scarcely arise. For land is mortgaged now. And the same security which actually satisfies the cautious solicitor of a cautious capitalist is likely also to satisfy a co-operative society. If there were to be *Landschaften* created among ourselves, no doubt solicitors would lose; but landowners would gain very substantially. And if such lending institutions could be made sufficiently popular, they might prove a most useful help in the creation of that small proprietary which most of us now profess ourselves anxious to see established. For some of our colonies co-operative mortgage societies appear to promise valuable services. For, by their interposition, once land bonds could be made to find a market in the old country—which it is only reasonable to presume that they

would—capital, which is, in the colonies, largely wanted for purposes of development, might be attracted in substantial sums from the United Kingdom. The precautions necessary for guarding against losses, such as have arisen in connection with the *cedulas*, are just those which co-operation for its own sake is bound to insist upon. They are: vigilance, careful control, and, above all things, the creation of a direct and supreme interest on the part of the borrowers themselves, made collectively liable, for their own sake, to keep lenders safe. Co-operation has accomplished that abroad, and it could accomplish it over again on British soil.

CHAPTER X

CONCLUSION

WHAT has been said ought, I think, to have made it clear that, although co-operative banking necessarily occupies a position by itself, by the side of other banking, as a quite peculiar form, dictated by peculiar circumstances, nevertheless it is, throughout, shaped well on ordinary business lines; and all its peculiarities, which at first are apt to strike the eye as strange and unfamiliar, are to be explained by business considerations and business objects which they are deliberately designed severally to serve and to attain. There is no good fairy work about this kind of banking, such as some people sometimes try to detect in it. Every penny that it produces, however much that may be, is fairly earned, that is, either created by production, or else saved by thrift. No more is co-operative banking a device, ingeniously contrived to promote improvidence and tempt to reckless credit. There is, in truth, nothing more deadly to it than improvidence or carelessness in business matters. Nor yet is it a deceptive channel devised for the conveyance of gratuities or gifts, in a demoralising stream, under a plausible disguise, to necessitous or else covetous persons, prepared, or otherwise, to return value in some other shape. It is all business—business of the simplest sort, adapted to special circumstances, to which it was particularly created to conform.

And, as it is of a piece with other business, so also, on the other hand, co-operative banking is completely of a piece with all other forms of co-operation, not least so with co-operative distribution, which will be the most convenient form to compare it with, since it is to most of us the most familiar.

What is it, so I should like to ask, that has secured, and still secures, to co-operative distribution its magnificent, its truly astonishing success? Nothing but perfectly natural causes. People talk mysteriously about "co-operative spirit," about something so "spiritual" and "ethereal" as to defy definition. "Co-operative spirit," truly, is an excellent thing; one could heartily wish that there were more of it—more particularly in co-operative societies. But it is itself rather a product of success first attained than productive of it. There is plenty of most successful co-operation in the world, unfortunately, altogether devoid of co-operative spirit. Simple results, as a rule, spring from simple causes. And, in the present instance, the cause is, that the store has, by its membership, a *certain* market to rely upon, with certain, definite, well understood, and, in point of number, very limited wants, the *merces popularibus usibus aptae*, which may easily be provided, and are readily sold; that, under such circumstances, it turns over its money very quickly, and can, accordingly, carry on much business with comparatively very little cash; and that, the accepted principle being prompt cash payments, it is effectually secured against bad debts. With such advantages as these in their favour, so Mr. Alderman Hoy well put it to the co-operators assembled at Manchester, when, as Lord Mayor of that city, he opened the Co-operative Exhibition in 1902, there was no reason why the champions of stores should so greatly plume themselves upon their success; with the same advantages any trader could as readily carry on any form of business and make it successful. That is no disparagement to the system; rather is it very high praise bestowed upon it.

Now, *mutatis mutandis*, the very same conditions apply every bit as much to co-operative banking. Only, in making the comparison, we shall have to bear in mind that to a certain degree, as between money and goods, the order of things here becomes reversed. It is money which is the bank's goods—

money, of which there is a constant supply always available, to be had without limit at its proper price, and which is so conveniently imperishable and contractible that it need not be made sure of beforehand, nor will it spoil if stocked; and it needs no store house to garner it. On the other hand, the value paid for it is that composite article, consisting partly, it may be, of ready cash, certainly to a considerable extent of linked liability and good management, for which, as an aggregate body, Schulze-Delitzsch invented the apt designation of "capacity for credit." Under such circumstances, accordingly, money becomes, from the paying medium that it is elsewhere, the commodity dealt in. But the principle of the business remains precisely the same.

Just like the store, the co-operative bank starts with an assured market. Its members form it because they need its services, and may accordingly be relied upon to bring custom to its counter. However, the chief advantage of the assured market in its own case consists less in the certainty of custom than in the certainty of the quality of its customers. Those customers have been passed through the sieve of election, and, having been tried and approved, are held fast by the powerful bond of joint interest and common liability.

Once more, the co-operative bank, long as the terms which it allows for repayment of its loans may be, enjoys, considering the circumstances of its business, the advantage of being able to operate with a comparatively very small working capital, and by insisting upon *prompt* payments, turns over its money, after all, generally speaking, with comparative rapidity. The instance most clearly demonstrating this is the Raiffeisen bank—let me rather say the hypothetical Raiffeisen bank, such as Raiffeisen himself first planned, before an adverse law was passed compelling shares—a bank without money at all of its own, but with plenty of acceptable liability always ready to be pledged, in return for money which it may raise just as it requires it.

There is in this case, at the outset, no working capital whatever. There is nothing to stock. But very prompt repayments are insisted upon. So the money, raised as required, comes back conveniently. Other co-operative banks are, or should be, as strict in their demand of prompt repayments, and in any case, knowing beforehand, in a general way, the wants which they are likely to be called upon to meet, they are enabled to work, not indeed altogether without working funds, but with a trading capital only small in comparison with what it would have to be in a non-co-operative bank.

The third great advantage secured by co-operation, that is, immunity from bad debts, the co-operative bank has to secure for itself, necessarily, by special means. That it is which marks it off so strikingly from its non-co-operative sister institutions. However, such as they are, those special safeguards are absolutely called for by the circumstances of the case and admirably suited to meet them. Although, accordingly, methods differ, the principle still remains wholly the same. The organism is merely adapted to its "environment." The non-co-operative bank acts in a capitalist centre, where customers own material possessions which stand for security. Their value can be ascertained with tolerable ease. Somewhat stringent bonds may at times be exacted; but the business may, all the same, be made smooth and easy, convenient for both parties, because there is more or less wealth on both sides. The safeguards resorted to are simple. In the larger, but, in a capitalist sense, more tenuous atmosphere in which the co-operative bank is called upon to carry on its business, the same conditions do not, and cannot, prevail. The groundwork of realised wealth is absent. The customers may be earning and producing well; their character may be above all suspicion; but the material security which the capitalist customer is in a position to offer, and which alone the capitalist bank is in a position to accept, is not among their possessions—or is so only in rare instances, in which wealth has really been

carried into the bank, not as an ordinary incident of membership, but designedly as a help to those who are deficient in it.

Accordingly, other elements of security have to be sought for. The linked liability of all, every member going bail for all the others, is one such, but only one. The collective bond of a hundred, or a thousand, persons must obviously be worth more than a hundred, or a thousand, separate bonds of the same members, even assuming them all to be borrowers as well as bondsmen, which is not likely to be often the case. The faggot is, by the very fact of its being a faggot, stronger than the single sticks composing it. However, the direct benefit of collective liability is much smaller than the indirect, which naturally follows from it, and which is the creation, by means of collective liability, engendering common interest and common peril, of an intermediate body, standing between borrower and lender, being strongly bound to either by that most compelling of forces applying to man, interest, and therefore certain to safeguard the cause of either. The lender may trust the intermediate authority, because, before he himself could lose a penny, its members would have to lose their all. He holds them as hostages. And, to protect their own liability towards the creditor, the members collectively, naturally, and very effectively, make the liability resting upon each debtor the more stringent. The obligations which they impose may appear complicated and severe. But, under the circumstances, they are indispensable. For the object aimed at is, as Schulze-Delitzsch put it, "to procure capital without a capital of guarantee;" or, according to the words of Mr. F. Passy, "to find means for giving credit to those who have no security to offer in exchange;" or, according to M. Luzzatti, to "capitalise honesty"—to turn character, that is, and industry, into a mortgageable, pledgeable commodity and raise money upon it. Inquiry as to circumstances, inquiry as to the object of the loan, watching its application, credit lists, and all the other paraphernalia of the business, accordingly, justify

themselves as the only substitute to be found for capital. And such conditions cannot materially change, even though banks should, as is their duty, study to repair their initial weakness in capital by accumulating such. Let them accumulate as much as they please, they will still remain, as banks go, institutions weak in capital; for the majority of their members will always be comparatively poor—and the banks indeed were formed, not to become powerful capitalist institutions, but to provide a common service of credit for members of small means at the smallest possible sacrifice to each.

The acknowledged necessity of such peculiar methods of caution ought finally to dispel those timid fears which appear to be still entertained in banking quarters—not, it is true, among the most enlightened of our bankers—lest co-operative banks should be found to encroach upon the business of other banks and become their rivals. Other banks assuredly would not care to—perhaps could not advantageously—stoop to the same humble and troublesome methods of business. And their customers certainly would not wish to subject themselves to such without need. (Persons materially strong enough to deal with a non-co-operative bank will probably, as the late Léon d'Andrimont assumed, always prefer to purchase the greater ease, smoothness and privacy of the capitalist bank, even at a slightly greater cost.) Such preference is very distinctly to be traced in the development of business in some of the great German co-operative banks, like those of Leipsic and Augsburg, which, becoming affluent, collectively and in their units, and having failed to introduce proper safeguards to keep themselves co-operative, have advisedly converted themselves into joint stock companies *for the sake* of making transactions easier, alike to the Board and to the customers now become well-to-do. In this country we have absolutely no similar encroachments by co-operation upon other banking business to apprehend, because, unlike Germany and Italy at the time when co-operative banking began, our

country is certainly sufficiently provided with ordinary business banks; and a co-operative bank attempting to edge its way in among them would no doubt find its work cut out for it.

This circumstance, indeed, explains a good deal in the differing degrees of progress of the co-operative banking movement severally in Great Britain and on the Continent. On the Continent co-operative banks came on the scene when banking institutions of other kinds were few, and banks of some kind were very badly wanted. They, accordingly, soon attracted capitalist business, and grew so strong that—to quote one instance—the inquiry held into the affairs of the Weimar Bank, when a receiver had to be appointed, revealed the presence of individual credit accounts of £20,000 and £30,000; and that in northern Italy the co-operative banks became the more powerful of the two several orders, doing, in Lombardy, I believe, about three-fourths of the total banking business. That is, in my opinion, an abuse; and no co-operator would wish to see the same thing repeated elsewhere. He will desire co-operative banks to be strong as institutions, but dealing out only the small business for which they were intended. In this country similar hypertrophe would be impossible. It is, in truth, the presence of so many, and such strong business banks, which now retards the progress of the co-operative banking movement—more particularly in such districts as Scotland and the North of Ireland, where business banks are in the habit of granting very small loans, and of meeting the convenience of humble customers in other ways. That, it is true, provides for only a small part of the wants which call for co-operative banks, but still it does supply a part. Business banks practically hold the cash-box of the market, and, accordingly, they must command the market. *Pecuniae obediunt omnia.* Co-operative banks promise to act by them as the useful "collecting banks" already act by the larger savings banks. Implanting habits of thrift, and raising up out of odd pence and sixpenny bits small capitals of a few pounds, these

little societies systematically do the recruiting for the large savings institutions. Co-operative banks promise to act much in the same way by other banks. So far from becoming rivals, they are far more likely to become feeders, endowing small people with moderate capital, training them up to banking habits, and so preparing them for business with the more capitalist institutions, to which they are likely to go as they become wealthy.

There is another point upon which I feel bound to dwell, because there is so very much misapprehension prevalent with regard to it. I hope that I have succeeded in making it plain that, so far from co-operative banks being mere specious tappers of outside treasure, acting as readily absorbent suckers in a pump, they are, in truth, one of the most valuable and effective institutions, not merely for the promotion of thrift, but also for the creation of capital generally, that the world has seen. The creation of capital is distinctly one of their main objects, without the pursuit of which their entire work must become a failure—the creation of capital in the bank, that is, as well as in the possession of its individual members. A member who does not produce value, and does not in one shape or another make himself the wealthier by the use of the bank, would be a very unwelcome member indeed, and one that a co-operative bank might be willing to get rid of, just as it gets rid of "dead accounts" on its books. Co-operative banks advisedly restrict their lending to purposes which aim at the creation of more value. And, within the limits of their own transactions, they make it their deliberate study to amass capital. What is the use, so not long ago asked the organ of the Raiffeisen Union of Neuwied—which Union makes it its ideal principle to begin without shares altogether—of pretending that we are indifferent to the accumulation of capital? At the close of 1903 our 3,061 societies, old and young, among them, apart from share capital—and apart, of course, from borrowed money—had no less than £386,488 laid up in their several reserve funds—money which

absolutely no one else can claim a right to which belongs solely to the banks. That is about £125 a piece in so many villages, money strictly earned by annual surpluses on tiny business.

The effect which co-operative banks produce in stimulating thrift is remarkable indeed. I have already spoken of it in connection with Germany and Italy. I think I may claim some of the encouraging firstling-results already obtained in India—a country in which the prospect of inducing people to save was not long ago pronounced altogether hopeless—to the credit of co-operative banks. Pioneer co-operative banks of a rather nondescript kind were some few years ago introduced into the United Provinces. The rules under which they were formed had soon to be changed, because, shaped on western models, they proved unsuited for Indian purposes. However, the banks had not existed altogether in vain. They had taught their members thrift. "In Bánda," so writes the Registrar of the United Provinces, Mr. J. Hope Simpson—who not long before had expressed himself sceptical with regard to the possibility of the collection of savings—"there are deposits in all societies. In Allahabad, with comparatively little fostering care on the part of the authorities, the society at Mahewa is rapidly developing into a savings bank on a small scale for small men. In Fyzabad, where the Deputy Commission helped the societies, and where at least one of the taluqdárs was of great assistance, the custom of depositing at harvest seems in a fair way to being established." That "depositing at harvest" is the Indian way of overcoming difficulties in the way of thrift. Harvest is the one time when saving seems possible—at the expense, it may be, of subsequent comfort; but at any rate the wherewithal to save from is there, and resolution has an opportunity given to it for asserting itself. It is the Indian counterpart to our gathering up odd pence by "collecting banks." The work is already done in the Dharma Golas,

or "Grain banks." In the co-operative banks, such as they are, as yet formed, the custom is spreading and being made compulsory. "The system of deposits at harvest," so writes the Registrar already quoted, "is acceptable, as a rule, to the members of these societies, wherever they take any real interest in them; and in all the societies which have been formed since the close of the year compulsory deposit of a small sum at harvest has been accepted as a condition of membership. The method of calculation varies from district to district. In Bareilly the members have agreed to deposit a sum calculated at nine pies ($\frac{3}{4}d.$) on each rupee (1*s.* 4*d.*) payable to the landlord. In Bulandshahr they have fixed the amount at one anna (1*d.*) in the rupee of rent. In Bánda they have agreed to deposit five seers (10 lbs) of grain at each harvest for each plough in their possession." Thus, like the Schulze-Delitzsch banks, though in a different way, the Indian co-operative banks are becoming "compulsory savings banks." "If this system of depositing becomes general (and there seems every sign that it will)," so Mr. Simpson goes on, "all difficulty in financing village societies will be at an end. The habit of depositing money with the societies is the most hopeful symptom of vitality, and, at the same time, the most certain sign of success in the future. It is obvious that in those societies in which the members have themselves deposited money there is an incentive to careful supervision over loans and recovery of loans, which does not exist in those societies in which the whole of the capital is borrowed capital." *

To have created a new, popular and effective opening for saving in erst helpless India is in itself an achievement for which champions of co-operative banks may take not a little

* Mr. J. Hope Simpson's latest Annual Report (for 1905—6) shows that compulsory deposits have become an established rule in 5 Central banks and 154 affiliated societies in the United Provinces. The Revenue Department in its official comments rightly describes such results as "very satisfactory."

credit. And I may add, that there is something of the same sort already to be observed in the rather nondescript thrift institutions which are intended to ripen into Village banks in Cyprus. In that undeveloped country, groaning under its oppressive, and at present scarcely any longer just, Turkish "tribute," £200 saved in a year in so many little villages is not a bad first-fruits of success for co-operative banking. The High Commissioner, who rather too ambitiously claims these little banklets as established "on Raiffeisen principles," says with regard to them: "the villagers are showing themselves remarkably quick in grasping the advantages of the scheme, and the development of the experiment is regarded with the greatest interest in the district." *

However, such effect is really only of the same nature as that to be witnessed in every poverty-stricken district of Europe, in which the co-operative bank, coming into the field as the depositor's own, and reserving his deposits for his own fructifying use, has invariably succeeded in arousing a warm personal interest in thrift, which has nerved people to overcome difficulties and lay the foundation for future better circumstances almost in spite of themselves.

It deserves to be pointed out to what extent co-operative banking, creative of new money-values as we have found it to be, has also shown itself creative of other forms of co-operation in their most useful application. To take one aspect only, and one country, co-operative banking has covered Germany with co-operative banking institutions ministering to agriculture—and developing it very rapidly and very successfully. A little more than thirty years ago Germany had no co-operative agricultural societies to speak of. On the strength of the little of the kind that we had here at the time—eight or nine county societies dealing in agricultural fertilisers, and the Agricultural and Horticultural (Co-operative) Association—I wrote a letter, about 1873, to the official organ of the Prussian Ministry of Agriculture, the

* High Commissioner's Report, 1904—5 (d. 2776).

Annalen der Landwirthschaft, calling attention to such pioneer work and recommending it for imitation. I do not positively know if the reason why my humble advice was not then taken was not the same which, ten years later, made Sussex farmers, among whom I endeavoured to form a co-operative society for the supply of agricultural articles, shake their heads, though strongly approving of the principle. "They are all on their dealers' books and cannot get off; they are not free agents." So one of our best known farmers of East Sussex interpreted their hesitation to me. In any case, agricultural co-operation remained in Germany a desideratum. However, a few years later, as the result of an inquiry by Royal Commission, conducted by very eminent men, the remarkable utility of co-operative banks came to be understood. Such banks then multiplied rapidly, and in their train followed a whole host of other co-operative organisations—supply societies, dairies, productive societies, breeding societies, societies of every kind and description. They now number above 20,000 in all.* It was the banks— in Léon d'Andrimont's apt words, the *cheville ouvrière* of all other co-operation—which stamped these legions out of the ground.†

That little society's steam threshing-machine which has long repaid its purchase price out of its hire—so much an hour

* The latest return issued shows that, on 1st. July 1906, there were in Germany 20,128 agricultural co-operative societies registered, of which 19,074 were members of Unions. Of that number 13,591 were Village banks. Besides these, of the 97 central societies registered, a large proportion were Central Banks.

† M. L. Durand, the chairman of the French *Union des Caisses Rurales et Ouvrières*, sums up the good work of the Raiffeisen banks under this aspect in the following words: "La Caisse rurale ou ouvrière ne se borne pas à faire du crédit individuel. Elle prête aussi aux collectivités, aux mutualités, aux associations. Et elle est devenue la base d'un grand nombre d'œuvres annèxes. Syndicats coopératives, fruitières, beurreries, mécaniques, moulins, sociétés de battage, sociétés de fabrication de vins de champagne, ou de choucroute, etc., etc. Elle aide les assurances mutuelles, en permettant aux sinistrés d'attendre le règlement de leurs indemnités en fin d'exercice, etc., etc. En un mot, la Caisse rurale a été souvent le berceau—et toujours l'auxiliaire—d'une foule d'œuvres sociales des plus intéressantes."

to members, a little more to non-members—was bought with bank money, without the members ever even putting their hands into their pockets. They have got the machine now. Elsewhere numbers of dairies have been raised up by means of bank advances paid off at the rate of so much per gallon of milk passing through their churns. Over-ambitious farmers have even, in an hour of reckless boldness, purchased their own nitrate deposits in Chile—which was found to be a mistake. The banks have done more. They have, on the strength of security obtained, assigned to members of theirs credits with the supply societies, which have enabled such to deliver goods, up to the limit fixed, at cash prices. Legitimate bank credit is in this manner substituted for illegitimate shop credit, and the difficulty of temporary impecuniosity, the necessity of having to sell goods at the wrong time to procure indispensable money, is overcome. Banks have, furthermore, taught supply societies to combine and federate, and to form their own Central banks, which serve them with credit just as other Central banks serve the banks themselves, thus hastening growth and development. It is a weary journey from the little shop in Toad Lane, or from the little trap that used to travel every Saturday to Smithfield to buy the Sunday joints, to the now magnificent stores severally of Rochdale and of Woolwich. A little legitimate credit may shorten the road. Distributive societies bid for deposits when they stand in need of money. The deposits do not always come in as fast as they are wished for. However, the same security that will suffice for a thousand small depositors will suffice also for the one Central bank, and, being accepted, will enable the store to extend its business, create new productive departments, improve its machinery or buildings, without waiting until the most favourable opportunity has passed by.

Agriculture is, however,—like "the plough," according to the Chinese proverb—the first claimant for assistance. And, truly, it seems more than a riddle, how, without resort to co-operative

credit—to supply our future *tenues rustici* and *diligentes agricolæ* of small husbandry and divided land with the necessaries for their calling—we are to carry through our intended reform of "repeopling the land." Nowhere has settlement of small folk upon the land been found possible on a large scale without a supply of working capital. It really is the working capital which gives the small holding its value. The land is to the small man worthless without it. Accordingly, the advice proper to give to a promoter of small holdings is the same wich Sir F. Nicholson, after his interesting survey of co-operative credit institutions, gave to the Government of Madras. * "Find Raiffeisen," so he concluded his paper—"find, so I should prefer to put it, the precise form of co-operative credit which will suit every particular locality in which you propose to operate!"

As to what that form should be, it is regrettable to find such very hazy notions still prevailing as to the merits and applicableness of the several types. I, personally, am very strongly impressed with the value of the Raiffeisen banks, if kept true to their original principle—and, of course, only within suitable surroundings, which are circumscribed. However, that is mainly on the ground of their social and morally educational merits, and their humility—that is, on the ground of their distinguishing feature by which Raiffeisen himself set greatest store, as his followers still do. There is so very much human nature in them. They dive down to the very root of poverty, welcoming those impecunious persons, whom Schulze-Delitzsch—quite rightly from his own point of view—did not consider yet "ripe" for co-operative banking. They lift the very beggar from the dunghill, lead him, teach him, influence him, raise him, make him independent and well-to-do. And all this consistently with very sound economy. But they are by no means the only co-operative institution to effect good moral results, or the only one

* "Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency," 2 vols. Madras. Government Press, 1895 and 1897.

adapted to rural and agricultural uses. They themselves could scarcely attempt urban, and certainly not individually large business. They are destined to be village or parish banks. And their very virtue and charm lie in their being so very *familial.* making members so much one family, united by brotherly interest. However, banks of other types render admirable service as well, under the very same circumstances—dealing out quantitatively even larger amounts of money. And wherever that indefinable quality, co-operative spirit, makes for itself a home within them, they become so like Raiffeisen banks, that I, for one, have failed to detect any difference. "Oh yes," said Cavaliere Spingardi to me, when I remarked upon this in his little bank of Spigno, "our *liability* is limited; but we have a moral responsibility." Herr Siegl of the successful Creditbank of Kaaden, in Bohemia, said practically the same thing, "We can be philanthropists as well as the Raiffeisen people, and we *should*."

People act quite wrongly in accepting one or other type of bank simply because uninformed opinion pronounces temporarily in its favour, as it might in favour of a particular fashionable make of motor car; or to select it, as Thackeray's "Captain Hicks" selected a Breguet watch, because it was a "Breguet." Every distinct type serves a particular purpose. Its distinguishing features are not capriciously selected, but carefully adapted to certain objects. You might compare the useful little Raiffeisen banks to the cultivator's spade, which can penetrate anywhere and adapt itself to every unevenness of the ground. It can dig up the corners and the headland, in respect of which the great steam-plough—producing, like the Schulze-Delitzsch banks, much larger results, wherever the ground is favourable—is helpless; it can follow all the curves of the edge of the field, and turn over the soil close up to the hedge; it can carefully dig out stones or gnarled roots, over which the steam-plough slides, if they do not indeed break its shares; it can delve in a hollow as well as on a crest. It would be useless in the wide field of a

prairie-farm, but in Europe the more pretentious work of the steam-plough would be lamentably incomplete without it. There is ample work for both. They are not rivals, but allies in a great cause. And, as Léon Say has quite correctly put it, they really are "of one family." The groundwork is everywhere the same, the governing idea is the same, the animating spirit ought to be the same. The application differs; and they severally touch different fibres in our system, to set the system in motion. One addresses itself mainly to the interest, whereas another appeals rather to the higher moral motives of human nature. However, the differences are in no way of the mechanical sort that people in England, not troubling to study the systems carefully, appear to imagine. On new ground we have to experiment, and find out which is the best form to adopt for the local circumstances. In India the European form, originally adopted for co-operative banks in the United Provinces, has had to be changed for other forms more consonant with native habits. In the West Indies something very similar has happened. Unlimited liability has frightened people, and a beginning has had to be made with limited.

As our law at present stands in the United Kingdom—there is reason to hope that it will soon be modified—co-operative banks with limited liability (such must necessarily be Share banks), in addition to having things made easy for them in their individual, purely banking, action, also enjoy these two valuable advantages, that they are free to combine to federations or Central banks, and to couple, in country districts, trading in goods with trading in money. Unlimited liability banks, registered under the Friendly Societies Act, can at present do neither the one thing nor the other.* However, federation and uniting to

* At least it is very doubtful if they may. A Treasury minute of recent date, as observed, allows them to invest in shares of Central banks. Not long ago I was advised that this was contrary to the Act. And, even now, counsel of standing assure me that in giving such permission the Treasury has exceded the powers conferred upon it under the Act.

Central banks are exceedingly useful things. German co-operators to-day ask themselves how it could ever have been possible to do without them. A Central bank ought not now to be very far off in Ireland. And while co-operative banking remains undeveloped, and the country side is condemned to go without co-operative stores, I hold the combination of the two to be, *in country districts*, very desirable indeed, as enabling two institutions, either of them weak at the outset, to render each other valuable support; and as bringing agricultural and industrial co-operation into line, with a unity of feeling and a realised common interest. On the *small* scale proposed, I hold this to be perfectly legitimate. One may well hope that the Legislature will, before long, come to our aid in conceding to unlimited liability banks, which have fully answered expectations in Ireland, equal rights with others.

There is one point which remains for me to deal with. How is it, so one cannot help asking, that, after co-operative banking has overspread all Europe, and pushed its promising advanced posts even into far Canada, further Jamaica and Barbados, and also into India, Great Britain alone lags behind? The institution is new, of course, and Britons, unlike the Athenians of old, instinctively shrink from any "new thing." Also our distributive co-operators, who love to pose as the only co-operators existing, cannot bring themselves to understand that there is an essential difference between "shop credit," which they rightly hold in abhorrence, and "bank credit," which affords the best means for stamping out shop credit—as, apart from myself, their great leader, the late Mr. Holyoake, has more than once been careful to remind them, telling them that what they want to bring the poor to their counters is "some of Mr. Wolff's banks," as he was pleased to call them.

But the main hindrance, I take it, has been a failure to understand the principles which underlie co-operative banking by some who have constituted themselves champions in the propaganda.

In the first place we have been too mechanical. Our great belief is in Rules. We seem to accept rules as we do a new recipe for some popular dish, which is bound to come out right from the oven if you only put in the proper ingredients. Our eagerness is all for rules and precepts—"positive precepts," that is, according to Bishop Butler. I still hear the words of a noted, most philanthrophic, "captain of industry" ringing in my ears, who, when I tried to explain the principle of co-operative banking to a gathering of members of Parliament at Westminster, called out to me: "do not trouble about the principle; give us the rules; we will find the money!"

However, co-operative banking is not to be learnt by rote. It is not a matter of "do this and avoid that," any more than is medicine a prescription to take such preparation at such and such an hour, sick or sound. Principle stands in it for a good deal more than rules. To recur to my simile of "animate machinery," it is the impressing of active interest, coupled with a keen sense of responsibility, in all the active parts of the machine—placing eyes, ears and judgment everywhere—which secures its apparently almost miraculous success. That is not to be ensured by rules. What wonder that failure to grasp the main principles should lead to precepts being given which present rather Co-operative banking "as she is spoke," than Co-operative banking as it is, and as it must be, practised!

In the next place, those who have set up for teachers in the cause do not appear in every case to have taken the trouble to qualify themselves for the part by first becoming pupils. I have seen rules—issued and approved—in which it is scarcely too much to say that nearly every paragraph is wrong, and which argue anything but that profound study of the organism, and more particularly of its operative parts, the hidden springs which move action, which may be taken to be desirable in propaganda. They are issued as embodying this or that particular principle. The authority generally appealed to is "Raif-

feisen." But Raiffeisen would be the first to repudiate them as constituting the very Antipodes of his system. You cannot make headway by such means. You may in this way form banks. But they cannot last.

Nor can you, as persuading yourself that you must know better than "ignorant" local people what is good for themselves, form a bank for them. If the bank is to be worth anything, above all things if it is to be successful, it will have to be the members' "very own," springing forth from their own judgment, their own conviction that they want it, and their own resolution to act in it and stand by it. I admit that to gain the people over to this is a more difficult task than to tell them of the brilliant success that the institution has achieved abroad, hand them down rules, and then leave them to themselves. However, that is what has to be done, unless the banks, when formed, are speedily to collapse again—as some of ours have done—and so provide an argument against your proposition rather than in its favour. It is "more haste" which in such cases means "worse speed;" an eager desire for "results" which defeats its own object.

And, in such matters, outside help is of little avail, if not indeed of worse than none. As a sequel to disappointment at the failure of unaided efforts, we have had talk about Government grants, about savings banks advances, about a coddling institution to be formed as a parent stock to throw out seedlings. The miserable failure of the Co-operative Wholesale Society in attempting to force co-operation upon London by means of its People's Societies ought to be a sufficient warning against acceptance of the last named proposal. You can never, in such matters, do for others what they necessarily have to do for themselves.

I grant that, in not a few cases, a little first nursing in the cradle may be indispensable to enable the infant Hercules to acquire the use of his arms and legs. Raiffeisen had to draw upon such outside resources, so had Schulze, and so had M.

Luzzatti. But such nursing in every case involves danger; and its utility depends entirely upon the form which it is made to take. In all proposals which I myself have made with such object in view I have been very careful above all things to emphasize the *temporary* character of the help given, and to ensure that it is accepted distinctly as a *loan*, on the clear understanding, kept vivid by a sense of ever present responsibility, that it is to be repaid. Such conditions can in the fullest measure be carried out only by help coming from private purses. Those who render it ought by preference to be local people, whose very presence will remind debtors of their own liability, and who can watch, warn and remind the bank when occasion requires. Indeed I prefer a guarantee, given to a banker who opens a cash credit, to assistance in money; and it was only the late Chief Registrar's veto which prevented me from putting that into my model rules. But for the very reason for which I prefer assistance from private persons—combining possibly to an "endowment committee"—to a Central bank, which would at any rate be *appearing* to be doing "business," and would suffer, and damage the movement, if there were to be loss, I place local help above the assistance which a central body could give. For, unless such body is exceedingly careful, people will have their sense of their duty to repay sitting lightly upon them.

State help is not desirable on any account. It relaxes the fibre of responsibility instead of stiffening it. It turns people's thoughts away from self-help. It is gratifying to me to find that in India it has been my pleading against State help which has determined Lord Curzon to cut it down to a minimum.* But even within such narrow limits Mr. Hope Simpson's first annual report † shows how it has worked mischief. The State cannot make advances at a high rate of interest. It has made

* Sir Thomas Raleigh, "Lord Curzon in India," p. 179.

† "Annual Report on the Working of the Co-operative Credit Societies Act," (X of 1904) Allahabad. U.P. Government Press, 1905.

them in India at the rate of 4 per cent. That has led local banks to grant loans at from 7 to 9 per cent, whereas no self-sustaining co-operative bank can as yet grant them at less than 12 per cent. The lower interest artificially produced has, accordingly, spoilt the game for self-help banks, led borrowers to expect gifts, rather than loans on businesslike terms, and frightened them away, in some cases altogether, from banks which cannot subsidise them at the general taxpayer's expense.

Any appeal to the savings banks is in this country altogether out of place. In Italy, independent savings banks lend to People's banks (of the Luzzatti type), because they have ascertained those particular banks to be "good" for repayment. They have no rule whatever in the matter, except that they do not make advances to unsafe customers. In Belgium, the National Savings Bank offers loans to Village banks; and the Savings Bank of Parma does the same thing. In either case, however, the little village institutions accepting such aid are kept in leading strings so tight as evidently to hinder free development. The success of the movement is trifling; and, even so, the Village banks formed in the way described have become to a far larger extent receiving offices for the parent savings bank, than borrowers from it. If co-operative banks would benefit by national thrift, they will have, as they should do on other grounds, to become their own savings banks.

There absolutely is no royal road to success in this matter, and it is contrary to reason to be impatient of results. The results are certain to come if a good foundation is first laid; but never without such. Such laying of a foundation is necessarily slow work. Chat Moss had to be filled up before you could build a railway accross. However, in its first stage a co-operative banking movement is far better promoted, and to much better purpose, by the formation and sound management of even only very few thoroughly well regulated banks, than by a stumping campaign through the country, and many for-

mations of banks which will probably turn out to be doomed to early decay.

We want co-operative banks in the United Kingdom. The proposed transformation of Agriculture into cultivation by small holders is impossible without them. We want them—co-operative societies more particularly do so—for housing purposes. Co-operative societies want them, not to fall out of touch with the poor people for whom they were really intended. Working men, trade, industry want them, to enable them to hold their own in the struggle with the corresponding interests in other countries. From 1895 to 1900, Germany has—to a large extent through her co-operative credit-banks—fought us in industry and commerce with our own money, for which without similar institutions we could find no use.* Men of business want them, to keep money plentiful, and make it cheap. The useful action of co-operative banks has in Germany, where they are to be numbered by thousands, reduced the current rate of interest for money, as their advocates will have it, by a full one per cent, certainly by an appreciable proportion. In Italy, M. Luzzatti claims for his co-operative banks, with reason, that they have placed credit for business purposes within reach of even the smallest trader or producer. Poor people want co-operative banks, to be able to work out their emancipation, and raise themselves above the necessity of wage labour. They want them to take the place for them of savings banks, which, in Mr. Asquith's words—spoken in the Budget debate in 1906:†—"compete for and lock up funds that might otherwise be available for commercial and industrial purposes."

There can be no question about the need. But what will

* See my article already quoted on "British and Foreign Banking," in the *Economic Review* of October, 1905.

† Mr. Asquith said this with reference to the Floating Debt; but it applies to the very letter to the employment of savings banks capital by the National Debt Commissioners.

have to be borne in mind, in the United Kingdom as everywhere else, is that co-operative banks, to be useful, can be formed only by their own members, and must stand independently, each upon its own solid foundation. Not every institution, unfortunately, is a co-operative bank, which is called so, to catch public favour. Principle must be everything, and the management must be strict. The machine of the bank must become animate, instinct with life. It is its own members who, propelling the various parts of the works, among themselves must manage it. And, to whatever extent its rules be adapted to suit a particular case, whatever is laid down must be rigorously adhered to, without fear, without favour, with the one object ever kept in view, which a quickened sense of individual responsibility may be relied upon to place in prominent relief, of the safety and solvency of the bank. Such duty having once been accepted, the work cannot be difficult, and success is bound to follow.

THE END.